LONGMANS' COMMERCIAL SERIES

EDITED BY ALFRED NIXON, F.C.A.

ACCOUNTING AND BANKING

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BY

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PREFACE

In the preparation of the present volume, my object has been to provide a comprehensive and practical text-book, at a moderate cost, to meet the requirements of the following:—

1. **Business men**, for whom it is hoped that the volume may serve as a clear and practical guide to the various commercial matters in which they are closely concerned, viz. business methods and the organization of accounts, banking, cheques and bills, partnerships and joint stock enterprise, income tax regulations and accounts.

2. **Candidates** for the valuable certificates in Accounting and Banking, and in Advanced Bookkeeping, awarded by the Society of Arts and the London Chamber of Commerce.

3. **Candidates** for the professional examinations of—
   - (*a*) The Institute of Chartered Accountants;
   - (*b*) The Society of Accountants and Auditors (Incorporated);
   - (*c*) The Chartered Institute of Secretaries; and
   - (*d*) The Institute of Bankers.

4. **Teachers** of the subjects named, who will readily appreciate the value of the numerous examples selected from those met with during an extensive professional practice, and of the 240 carefully graded questions on the text, mainly taken from recent papers of the various examining bodies.

In dealing with the principal branches of commercial and financial activity, I have endeavoured to avoid technicalities, and have preferred to adopt a plain business-like style in explaining the underlying principles and the essentials of the various classes of accounts considered.

The order and method of treatment follow the plan adopted by me with conspicuous success in lecturing during the past twenty years to large classes of business men and accountancy

students. During that period I have gained an intimate knowledge of the special difficulties and requirements of such students, and I have not unreasonable confidence that the knowledge and experience thus acquired will be valuable to the readers of the present work.

I desire to express my indebtedness and thanks to the several members of my staff who have rendered assistance, and to Mr. H. Lysons, Chartered Accountant, of Manchester, for the Building Society Accounts.

As in the working of so many examples I cannot hope to be entirely free from errors, I shall deem it a favour to be informed of any inaccuracy that may have escaped notice. I would also invite readers who may be uncertain as to the treatment of matters dealt with, to communicate with me for the explanation of any difficulty they may encounter in working the exercises.

ALFRED NIXON.

MUNICIPAL SCHOOL OF COMMERCE,
MANCHESTER.

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ACCOUNTING AND BANKING

CHAPTER I

ORGANIZATION OF ACCOUNTS

Cash—Goods—Bills—Stock Book—Reconciliation Statement—Self-balancing Ledgers.

To Alfred Nixon, Esq.,
Victoria Buildings,
Manchester.

Portland Street, Manchester.
January 2, 19—.

DEAR MR. NIXON,

As you are doubtless aware, I have resigned my position with Messrs. Sharp & Co., and commenced business on my own account at the above address.

As I am anxious that my accounts shall be kept on the right lines, I should be glad if you would give me an early call to arrange terms for the organization of the accounts, and the yearly audit of the books.

I am,
Yours faithfully,
A. READER.

At the interview with Mr. Reader on the next day, satisfactory terms were arranged, and the particulars of the character and the probable scope of his business operations ascertained.

The following is an outline of the recommendations made to suit his particular requirements as a trader, giving and receiving credit, and with but a moderate turnover :—

1. GOODS

(*a*) *Purchases* authorized by printed and numbered order forms, of which carbon or press copies are to be kept for

reference; these orders to be signed by responsible persons only, and a general supervision on quantities and prices to be maintained by the principal.

Invoices received to be checked in regard to quantities, quality, price, extensions, and additions, and initialled by persons dealing with these points. Passed invoices to be fastened in Guard Book.

(*b*) *Sales*. Orders received to be filed for reference; as goods are delivered invoices to be made out, and checked by junior for copying in special press book, or entering into Sales Day Book.

(*c*) *Returns and Allowances* to be noted by debit or credit notes, and particulars to be entered in outward or inward Returns Book, as the case may be.

(*d*) *Trade Discount*, being a special allowance on goods, quite apart from the payment of the account, to be deducted from invoices of purchases, and deducted from sales in the Sales Day Book.

2. Cash Transactions

(*a*) *Money received*. No receipts to be given on invoices or statements, but only acknowledged by the firm's printed receipts from counterfoil receipt books bearing printed consecutive numbers. All cash received to be paid into the bank forthwith.

Notice to be given on business forms that cheques be made payable to the firm, and crossed to the firm's bankers, and that only a printed receipt will be an acknowledgment of payment.

(*b*) *Money paid*. All accounts to be paid by crossed cheques, and vouchers for such payments to be placed in Voucher Guard Book in the order of entry in the Cash Book. Prior to payment all statements to be carefully checked with the ledger accounts, and rate of discount supervised.

(*c*) All *Cash Discounts* to be entered in the Cash Book, and full advantage taken of favourable terms—remembering that $2\frac{1}{2}$ for three months means at the rate of 10 per cent. per annum.

(*d*) *Petty Cash* to be kept on the Imprest system, *i.e.* the amount to be advanced to the petty cash clerk, sufficient to enable him to make small payments, and a cheque to be drawn

each week, or month, for the total; thus restoring the petty cash advance to its original amount.

(*e*) *Salaries* to be certified, and a cheque drawn each week for the total sum, or for each monthly salary.

(*f*) Monies drawn out by Mr. Reader on account of profits to be paid by cheque, and charged to a Drawings' Account.

3. Bills of Exchange

(*a*) *Receivable* to be numbered in consecutive order of receipt and full particulars entered in Bills' Journal. If discounted, discount to be entered in discount column of Cash Book, and the net proceeds in bank column.

(*b*) *Payable* to be numbered consecutively and careful supervision maintained of dates of payment; and that in accepting care be taken to prevent heavy engagements coming on any particular date.

4. General

(*a*) Ledgers to be kept posted up to date, and proved on self-balancing principle. Cashier and clerks dealing with cash not to post into ledgers.

(*b*) Sales Ledger. Accounts-due Book to be entered up each month, and supervision kept over accounts overdue.

(*c*) Purchase Ledger. Statements from creditors to be checked on receipt, and differences inquired into and rectified.

(*d*) Bank Pass Book to be made up frequently, and checked with Bank Account in Cash Book.

(*e*) Petty Cash and Wages Books to be overlooked by principal, and initialled to certify that in order.

(*f*) Stock Book to be kept in Dr. and Cr. form, particulars of dates, names, description of goods, prices and references to invoices and Day Book entries. Occasional check to be made by responsible persons of quantities in stock, as shown by the book.

The following is the ruling of the Stock Book suitable for this business. For each particular class of goods several pages may be reserved, so that the quantities on hand of any description, or special quality of merchandise may be readily ascertained or checked.

STOCK BOOK

Own stock number.	From whom received.	Maker's number.	Description of goods.	Date of invoice.	Cost.			Additional cost.			Total cost.			Date of sale.	Selling price.			By whom.	Day-Book folio.	To whom sold.	Remarks.
					£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.				

Reconciliation Statement.—As the Bank Account should be reconciled with the Pass Book at frequent intervals, it will be well to give an example of a Reconciliation Statement entered in the Cash Book, say, on January 31 :—

	£	s.	d.	£	s.	d.
Balance as per Pass Book				940	0	0
Add cheques not collected—						
A.	35	0	0			
B.	60	0	0			
				95	0	0
				£1035	0	0
Deduct cheques drawn but not presented—						
X.	2	10	0			
Y.	125	0	0			
Z.	240	0	0			
				367	10	0
As per balance in Cash Book				£667	10	0

Let us take the case where on December 31 the Cash Book shows an overdraft at the bank, and the Pass Book the reverse—

	£	s.	d.	£	s.	d.
Balance to Dr. of bank, as per Pass Book				520	0	0
Add cheque not collected (Lang and Co.)				30	0	0
Deduct cheques not presented—				550	0	0
Watts	422	10	0			
Cooper	110	0	0			
Brown	243	15	0			
	776	5	0			
Less	550	0	0			
Balance of	£226	5	0	to Cr. of bank as per Cash Book.		

Self-balancing Ledgers.—Instructions were given that each Trade Ledger should be self-balancing. To do this a Memorandum Account of aggregate or total postings should be drawn out each month to prove that the balances of that particular ledger have been extracted correctly, and as a test upon the accuracy of the postings and additions. In this way errors are localized, and each ledger clerk made responsible for his own blunders.

SALES OR DR. LEDGER

		£			£
Dec. 1.	To balance	4500	Dec. 31.	By cash	2425
„ 31.	„ sales	3200	„	„ discounts . . .	75
	„ transfers	25	„	„ bills receivable .	1300
			„	„ returns	120
			„	„ bad debts . . .	30
			„	„ balance	3775
		£7725			£7725

The amounts included in the above are the month's totals from the various books, representing it may be thousands of postings made by the clerks from the record books.

The balance is the proved amount on November 30; the Day Books and Returns Books give the totals of the sales and returns; Cash Book of the total receipts and discounts; the Bills Receivable Book of acceptances received; and from the Journal are the bad debts and the transfers from other ledgers.

PURCHASE OR CR. LEDGER

		£			£
Dec. 31.	To cash	3101	Dec. 1.	By balance	6200
„	„ discount	99	„ 31.	„ purchases . . .	2730
„	„ bills payable . .	2400	„	„ transfers . . .	25
„	„ returns	115			
„	„ balance— . . .	3240			
		£8955			£8955

In this example it will be noticed that transfers from the other ledgers, for which usually a Transfer Journal would be kept, may be on both sides of the account.

QUESTIONS AND EXERCISES

1. How would you deal with inward invoices?
2. How would you enter and deal with an allowance made on goods sold?
3. What special points should be noted in regard to cash receipts and payments?
4. Distinguish between trade and cash discounts, and state the method of entering in the record books.
5. What do you consider a good method of keeping a petty-cash book?
6. Describe any special points in the drawing and accepting of bills.
7. Draft a form of Stock Book, stating the particulars usually given.
8. What is a Bank Reconciliation Account? Give an example.
9. What is the object of keeping self-balancing ledgers?
10. Give an example to show the check maintained on a debtor's ledger.

CHAPTER II

DOUBLE ENTRY ACCOUNTS

Preparation for Audit—Trial Balance—Profit and Loss Account—Balance Sheet.

It is the end of the year, and Mr. A. Reader is anxious to know to what extent his trading during the past twelve months has been profitable or otherwise, and also to have placed before him a clear and correct statement of his financial position. At a preliminary call the following instructions are given to the book-keeper to facilitate the audit:—

(*a*) Postcards to be sent to trade creditors asking for statements of accounts to December 31 inclusive, and thus enable Ledger Accounts to be checked by them.

(*b*) Bank Pass Book to be made up and reconciled with Bank Account in Cash Book.

(*c*) Stock-in-trade to be listed, priced, extensions made and certified by responsible persons.

(*d*) All outstanding charges, such as rent, rates, commissions, etc., to be entered in the books; or a detailed list made out to allow of provision being made for same in the accounts.

(*e*) A list of bad and doubtful debts.

(*f*) Unsettled accounts in the Trade Ledgers to be ruled off, and the balances carried down to the next period.

(*g*) The arithmetical accuracy of the additions and extractions of the balances to be proved by means of a trial balance. All entries to be in ink.

Early in the New Year the following trial balance is furnished:—

TRIAL BALANCE

December 31, 19—

	Dr. £	s.	d.	Cr. £	s.	d.
Trade debtors	3775	0	0			
„ creditors				3240	0	0
Bank				226	5	0
Petty cash	15	0	0			
Purchases	35,403	10	0			
Sales				33,425	5	0
Salaries (including A. Reader's salary, £300)	1300	0	0			
Rent, rates, and taxes	240	0	0			
Insurance	60	0	0			
Fixtures	480	0	0			
Discounts				160	0	0
Stable stock	70	0	0			
„ expenses	60	0	0			
Bad debts	120	0	0			
Bills receivable	3750	0	0			
„ payable				4240	0	0
Interest	18	0	0			
Loan account (C. Lender)				1000	0	0
Capital				3000	0	0
	£45,291	10	0	£45,291	10	0

NOTE.—The amount of the stock on hand, December 31, £4024.

The trial balance is a list of balances of all open accounts in the ledger, including the cash and bank balances from the Cash Book, which in practice is regarded as a ledger account for cash transactions.

Inspection of the trial balance shows an equality of the debit and credit balances, and therefore that we may rely upon the arithmetical accuracy of the books. We have now to make certain adjustments and bring into account the value or cost of the stock on hand, and then proceed to the preparation of the statements furnishing the informations desired by Mr. Reader.

The accounts we intend to supply are—

(*a*) Profit and Loss Account.

(*b*) Balance Sheet.

The Profit and Loss Account is a concise statement of the expenses and charges of the business for the period, entered on the debit side of the account; and the gains and profits of the period entered on the credit side; the balance if to the credit indicates profit, to the debit a loss.

It is advisable that there be a separation of the account into two parts: the first, Trading Account, showing the gross profit—the difference between the buying and selling prices; and the second part showing the net profit—the amount left after taking into account all expenses of distribution, counting-house expenses and fixed charges, such as interest on capital, depreciation, etc. A third division may also be made to include profits and income received apart from the ordinary business, as dividends from investments, profits from dealing in shares, and the disposal of the balance, as in the transfer of an amount to reserve and the distribution of the balance to the partners. This will be illustrated more fully in Company Profit and Loss Accounts.

Classes of Accounts

Prior to the preparation of the Profit and Loss Account let us examine the items in the trial balance with the view of understanding the accounts and making any necessary adjustments. It should be noted that we have to deal with two classes of accounts, which may again be subdivided as follows:—

1. *Personal.*
   - (*a*) Drs.—Accounts showing the indebtedness of persons to the firm.
   - (*b*) Crs.—Accounts showing the liability of the firm to persons.
2. *Impersonal.*
   - (*a*) Real—Accounts representing values, as cash, fixtures, premises, stock.
   - (*b*) Nominal—With either debtor or credit balances; opened to give information concerning the profits, expenses and losses of the business, such as discounts, interest, commission, bad debts, etc.

A knowledge of this classification of accounts is of value in understanding the essential difference between single and double entry bookkeeping; in the former, personal accounts only are to be found; whilst in the latter, in addition to the personal, the impersonal accounts are necessary for the

completion of the double entry. As typical illustrations note the following—

1. Bought from Brown & Co., goods £50.

   In single entry Brown & Co. would be credited, and no other ledger entry made. In double entry in addition to the credit to Brown & Co., Purchases Account would be debited, the item probably being included in the total purchases of the month.

2. Bought fixtures from Smith, value £70.

   A credit to Smith in single entry; in double entry an additional entry of a debit to Fixtures Account.

3. Brown & Co. allow a discount of 50*s.*

   Single entry only a debit to Brown & Co., completed in double entry by a credit to Discount Account.

4. Paid salaries, £15.

   A credit to the cashier in single entry, completed in double entry by a debit to the Nominal Account, salaries.

The Balance Sheet and Profit and Loss Account may be regarded as giving: the one, a statement of capital amounts, and the other revenue items; and therefore it is well that, in the preparation of them, we should have a clear understanding of the important distinction between capital and revenue.

As this will be dealt with later, it will be sufficient to indicate the points of difference between the two.

The capital in a business is represented by fixed and circulating assets, such as premises, machinery, plant, horses and carts, cash, stock-in-trade. These may be converted one into the other without any change in the total value, as cash into machinery or additional premises and plant, in which cases the transactions would be those affecting capital.

Expenditure for carrying on a business, as salaries, rents, expenses of distribution, etc., for which outlay there is no increase of value in the assets, are revenue items.

The account showing the gross and net profits of the concern is actually a Revenue Account, but as this term is a general one, other distinctive names are adopted, as Profit and Loss, Income and Expenditure. In regard to the capital items, revenue charges have frequently to be made; as losses

on the sale of assets, repairs to fixtures, plant, and premises, which reduce the capital item cash, without adding to the value of the fixtures or plant; the allowance for depreciation on these fixed assets is also a revenue charge.

Proceeding to the accounts in the trial balance, we find that although certain bad debts have been written off during the year, yet provision must be made for certain other bad and doubtful debtor balances, of which at present the exact amount cannot be ascertained. So that the Profit and Loss Account of the period may bear this loss, and the balance sheet show the debtor balances at a true value, we think it well to make a provision or reserve of 5 per cent. for bad and doubtful debts. An ascertained or estimated amount for discounts on both Dr. and Cr. balances might also be provided, but in this instance, as the totals are very similar in amount, we may neglect this adjustment. As a charge against profit and a reduction of the value of fixtures and stable stock, we allow for the wear and tear of these wasting assets a depreciation of 10 per cent. We find that the payment made for insurance extends into the following year, and therefore, on apportioning the amount, we carry £20 as an asset to the next period, thus reducing the insurance charge for the present year. As, on inquiry, we find that there is £25 due and unpaid for interest on the loan, this must be included in the liabilities.

Invested in a good security, Mr. Reader's capital would have produced probably 4 per cent., it is usual, however, to charge the business for the extra risk with 5 per cent.; in this way showing what may be considered the actual profit of the trading after allowing interest on the capital invested.

Closing Entries

Although the adjustments closing the nominal accounts may be made direct from Ledger Account to Ledger Account, it is preferable to make closing entries through the Journal, and so keep a record of final adjustments together in a clear and readily accessible form.

December 31*st*, 19—

	Dr. £	s.	d.	Cr. £	s.	d.
Profit and Loss A/c. Dr.	188	15	0			
To Bad Debts Reserve A/c.				188	15	0
(Being 5°/₀ on Dr. balances)						
Profit and Loss A/c. Dr.	55	0	0			
To Fixtures A/c.				48	0	0
„ Stable Stock A/c.				7	0	0
(being 10°/₀ depreciation)						
Prepaid Insurance A/c. Dr.	20	0	0			
To Insurance A/c.				20	0	0
(for insurance paid in advance)						
Interest A/c. Dr.	25	0	0			
To C. Lender				25	0	0
(For 6 months' interest at 5°/₀)						
Interest A/c. Dr.	150	0	0			
To A. Reader, Capital A/c.				150	0	0
(12 months' interest at 5°/₀)						
Trading A/c. Dr.	35,403	10	0			
To purchases				35,403	10	0
Sales A/c. Dr.	33,425	5	0			
To Trading A/c.				33,425	5	0
New Stock A/c. Dr.	4024	0	0			
To Trading A/c.				4024	0	0
Profit and Loss A/c. Dr.	1953	0	0			
To salaries				1300	0	0
„ rents, rates, and taxes				240	0	0
„ stable expenses				60	0	0
„ bad debts				120	0	0
„ insurance				40	0	0
„ interest				193	0	0
Discount A/c. Dr.	160	0	0			
To Profit and Loss A/c.				160	0	0
Profit and Loss A/c. Dr.	9	0	0			
To A. Reader, Capital A/c.				9	0	0
(transfer of net profit)						

TRADING AND PROFIT AND LOSS ACCOUNT

December 31*st*, 19—

Dr.	£	s.	d.	Cr.	£	s.	d.
To purchases	35,403	10	0	By Sales	33,425	5	0
„ gross profit	2045	15	0	„ Stock	4024	0	0
	£37,449	5	0		£37,449	5	0
To salaries	1300	0	0	By Gross Profit	2045	15	0
„ rent, rates, and taxes	240	0	0	„ Discounts	160	0	0
„ stable expenses	60	0	0				
„ bad debts	120	0	0				
„ bad debts reserve	188	15	0				
„ insurance	40	0	0				
„ interest	193	0	0				
„ depreciation— fixtures	48	0	0				
stable stock	7	0	0				
„ net profit to Capital A/c.	9	0	0				
	£2205	15	0		£2205	15	0

BALANCE SHEET

December 31, 19—

Dr. Cr.

Liabilities.	£	s.	d.	£	s.	d.	*Assets.*	£	s.	d.	£	s.	d.
To sundry creditors				3240	0	0	By sundry debtors	3775	0	0			
,, bank				226	5	0	Less reserve of 5 per cent. for						
,, bills payable				4240	0	0	bad and doubtful debts	188	15	0			
,, Loan Account—											3586	5	0
C. Lender	1000	0	0				,, bills receivable				3750	0	0
Six months' interest	25	0	0				,, petty cash				15	0	0
				1025	0	0	,, stock on hand				4024	0	0
,, capital—							,, prepaid insurance				20	0	0
January 1	3000	0	0				,, fixtures	480	0	0			
Interest	150	0	0				Less depreciation	48	0	0			
											432	0	0
	3150	0	0				,, stable stock	70	0	0			
Profit and Loss Account	9	0	0				Less depreciation	7	0	0			
				3159	0	0					63	0	0
				£11,890	5	0					£11,890	5	0

Let us study the structure of the balance sheet more closely.

There is a difference of opinion among accountants as to the placing of the liabilities and assets on the left- or right-hand side, some few maintaining that the assets should be on the left, and the liabilities on the right, just as they are in the Ledger Accounts, the balance sheet being regarded by them as a summarized statement of the ledger. The almost general practice, however, is to follow the *pro forma* example given in the Companies Acts (Table A.), and the Councils of the Institute of Chartered Accountants and of the Society of Incorporated Accountants follow this precedent, viz. liabilities on the left and assets on the right.

The question is also raised as to the use of the terms Dr. and Cr.; some maintaining that as the sheet is but a summary of assets and liabilities, it should not be made out in Dr. and Cr. form. Again we have the authority of the two bodies of accountants and also of the form given by the Companies Acts. Further, there seems to be good reason for regarding the balance sheet as a Ledger Account of the firm, debited with its liabilities or responsibilities, and credited with the assets which it is calculated would discharge these liabilities. As will be seen later, the statement of affairs in bankruptcy charges the estate with its liabilities, and shows on the right-hand side the value of assets estimated to pay so much in the £ in settlement of the liabilities; the shortage being the deficiency to be explained by the debtor.

It will be noticed that there is a certain arrangement in the order of stating the items of this account.

Floating assets and liabilities, by which we mean those which are of a temporary or fluctuating character, such as Trading Accounts of which settlement is expected within the next month or so, and of bills receivable and bills payable, most of which will mature and must be paid within three or four months; then the stocks, often varying with the state of the market or dependent on the season of the year.

Following these we find the fixed assets, such as fixtures, plant, stable stock, premises which would not, except in the case of the winding-up of the business, be regarded as being realizable for the ordinary settlement of trade liabilities.

The account of Mr. A. R. as a capitalist and investor of

money in the business appears as the last of the creditors, and the useful inner column is given to place before him at a glance the ups and downs of his financial interest in the concern, and, if the latter, whether the result of trade losses or of excessive personal drawings, in other words extravagance, or of both.

QUESTIONS AND EXERCISES

11. How are outstanding trade expenses dealt with at stock-taking?
12. State the principal instructions given to the bookkeeper in preparation for the audit.
13. What is the object of the trial balance?
14. Give an example of a Profit and Loss Account.
15. What is meant by gross profit and net profit?
16. Classify the different kinds of accounts in double entry.
17. Distinguish between capital and revenue items.
18. What is meant by "closing entries"? Give examples.
19. Discuss the form of the Balance Sheet.
20. From the following trial balance prepare Profit and Loss Account and Balance Sheet.

TRIAL BALANCE FOR JUNE 30, 1902

	Dr. £	Cr. £
Capital		4800
Drawings	1000	
Fixtures and Fittings	250	
Wages	450	
Bills receivable	500	
Reserve for bad debts		110
Trade expenses	100	
Stock, January 1, 1902	900	
Purchases	5000	
Rent	150	
Sales		8000
Debtors	3000	
Creditors		1200
Cash	700	
Discounts	60	
Lease	2000	
	£14,110	£14,110

The stock on June 30, 1902, was £500. Increase the reserve for bad debts to £250, write £1000 off Lease Account, and provide for depreciation of fixtures and fittings at the rate of 10 per cent. per annum.

CHAPTER III

SINGLE ENTRY ACCOUNTS

Conversion to Double Entry—Errors of Commission, Omission, and Principle—Forms of Trial Balance—Arrangement of Books for Sectional Balancing—Adjustment Account.

WANTED an Accountant to square up firm's neglected books, for balance sheet purposes and annual audit hereafter. Address, N. 125 at the printer's.

Such was a recent advertisement in the front page of the *Manchester Guardian*, which revealed the difficulties of the advertiser when an urgent demand was made by his bank or his creditors for a balance sheet.

Just another instance of the many firms who suffer financially and are worried personally owing to badly kept or neglected account keeping.

Whilst not making the acquaintance of N. 125 we have had experience of surprising accounts, from which it was difficult to evolve order. Lest such should come before the student let us deal with a case or two.

1. A business in which the principal acts as cashier, the entries of receipts and payments being made in the Cash Book by him, but the Cash Book neither balanced nor posted. Entries are made direct to the ledger from invoices or statements received and sent out, and cash entries made to the accounts in a haphazard way; accounts ruled off showing a shortage on the cash side. Stock not taken or checked, no Profit and Loss Account, nor statement of assets and liabilities drawn out for several years past. Only peremptory income tax demands compelled the preparation of accounts and our being called in to deal with the affairs. To save expense, the preceding twelve months' business only was dealt with. The Ledger Accounts were checked by books, creditors' statements, Bank Pass Book and Cash Book entries, and omissions and errors rectified in the ledger.

Omissions and errors in the Cash Book were entered and corrected, including items for wages and trade expenses, and the deficiency of cash charged to the principal as drawings, causing him to realize the importance of balancing the Cash Book regularly. Then followed the preparation of a statement of assets and liabilities, the balance being taken as capital. Instructions were given for the proper keeping of record books, and arrangements made that each month double entry postings, and checking of the entries should be made.

2. Here the books are kept by single entry, and the last statement, wrongly named a balance sheet, is in the following form :—

BALANCE SHEET—J. SLOWE

December 31, 1905.

To creditors	By debtors . . . .
,, bills payable	,, bills receivable . . . . .
,, capital	,, bank . . . .
	,, cash in hand . . . . .
	,, stock . . . .
	,, fixtures . . . .

PROFIT AND LOSS

Jan. 1. To capital	Dec. 31. By capital . . . .
,, ,, balance Profit	,, ,, drawings . . . .

The account is merely a statement of assets and liabilities compiled from various sources, bills from the Bill Book, bank balance from the Pass Book, Drs. from the Sales Ledger, Crs. from the Purchase Ledger, and fixtures at an estimated value. There has been no check in the way of double entry upon the transactions, and the balances of customers' accounts are assumed to be correct. As no nominal accounts have been kept no particulars are afforded of the various expenses, and the profit is taken to be the increase of capital since the last statement, plus the principal's drawings; so that if on January 1 the excess of assets over liabilities was £2150, and the statement on December 31 showed the surplus to be £2400, and the drawings to have been £450, the profit would be stated as £700.

Mr. Slowe finds later that, owing to the following omissions, he has been working at a loss, and that his capital is much reduced by the following errors :—

1. Omission of an acceptance which has been debited to the creditor but not taken into account in the bills payable.
2. Invoices not credited for goods taken into stock.
3. Accounts received not entered in Cash Book although posted to Drs. Accounts.
4. Rent owing, not included in liabilities.
5. Cheque paid to a Cr. debited, but, owing to the cheque not having been presented, the bank balance entered incorrectly.

As he is afraid there may be other errors, we are instructed to deal with the period's transactions on the double entry principle, and then furnish the Profit and Loss Account and Balance Sheet on that system. If we have the initial stock, or the period to be dealt with dates from the beginning of the business, then our task is fairly simple, consisting in analyzing the ledger debits and credits for the totals of purchases, sales, returns, allowances and discounts, and checking the Cash Book entries with the ledger postings. For the expenses and capital receipts and payments, the Cash Book will also require analyzing. Confirmation of the ledger balances should also be obtained from creditors' statements and accounts rendered to debtors. Bills receivable discounted would be checked by the Pass Book, and those on hand with the Ledger Accounts.

We find the commencing statement and year's summary of transactions to be :—

STATEMENT OF ASSETS AND LIABILITIES

January 1, 1905

	£		£
To creditors	12,320	By trade debtors	18,500
„ bills payable	1,400	„ bills receivable	3,600
„ bank	1,100	„ cash	70
„ outstanding rent	150	„ stock	13,460
„ capital	21,200	„ fixtures and fittings	540
	£36,170		£36,170

During the year the following transactions take place :—

	£
Discounts are allowed to customers	230
Goods are bought for	16,000
Rent and rates are paid by cheque	450
J. Slowe draws out by cheque	500
Trade expenses are paid by cheque	650
Wages are paid out of cash	1,100
Customers' accounts are received in cash	19,000
Goods sold amount to	21,200
Bills are drawn on customers for	4,900
Customers' bills are paid at bank	5,400
Creditors are paid by cheque	26,320
Creditors' bills are paid in cash	1,800
Cash is paid to bank	16,150
The firm accepts bills for	2,000
Bad debts	250
Stock at December 31, 1904, is	14,000

From this we may journalize and post as follows, and then, after making the usual adjustments for depreciation and bad debts, proceed to the preparation of the final accounts. For the new year instructions will be given to open the necessary impersonal accounts for the adoption of double entry.

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1905.		£	£
Jan. 1.	Sundry trade debtors. Dr.	18,500	
	Bills received	3,600	
	Cash	70	
	Stock	13,460	
	Fixtures and fittings	540	
	To trade creditors		12,320
	" bills payable		1,400
	" bank		1,100
	" rent		150
	" capital account		21,200
	Being statement of assets and liabilities at this date	£36,170	£36,170
Dec. 31.	Sundry debtors. Dr.	21,200	
	To Sales Account		21,200
	Cash. Dr.	19,000	
	Discount. Dr.	230	
	Bills receivable. Dr.	4,900	
	Bad debts. Dr.	250	
	To sundry debtors		24,380
	Purchases Account. Dr.	16,000	
	To sundry creditors		16,000

	£	£
Sundry creditors. Dr.	28,320	
To bills payable		2000
„ bank		26,320
Bills payable	1,800	
To cash		1,800
Rent and rates. Dr.	450	
Wages. Dr.	1,100	
Trade expenses	650	
To cash		1,100
„ bank		1,100
John Slowe—drawings. Dr. . . .	500	
To bank		500
Bank. Dr.	5,400	
To bills receivable		5,400
Bank. Dr.	16,150	
To cash		16,150
New stock. Dr.	14,000	
To Trading Account		14,000

After posting the above to the respective Ledger Accounts, we find the Trading and Profit and Loss Account and Balance Sheet to be as hereunder.

TRADING ACCOUNT AND PROFIT AND LOSS ACCOUNT

Dr.		£ s. d.		Cr.	£ s. d.
Jan. 1.	To stock . . .	13,460 0 0	Dec. 31.	By sales . . .	21,200 0 0
Dec. 31.	„ purchases .	16,000 0 0		„ stock . . .	14,000 0 0
„	„ Profit and Loss Account .	5,740 0 0			
		£35,200 0 0			£35,200 0 0
Dec. 31.	To Rents and Rates Account	300 0 0	Dec. 31.	By Trading Account . . .	5,740 0 0
„	„ Discount Account . . .	230 0 0			
„	„ trade expenses . . .	650 0 0			
„	„ Bad Debts Account . .	250 0 0			
„	„ Wages Account . . .	1,100 0 0			
„	„ Capital Account (Profit)	3,210 0 0			
		£5,740 0 0			£5,740 0 0

BALANCE SHEET OF JOHN SLOWE AT DECEMBER 31, 1904

Dr. *Liabilities*		£	*Assets*	Cr. £
To Bank Account		7,470	By Cash Account	20
„ Bills payable		1,600	„ Bills receivable	3,100
„ Capital Account	21,200		„ Sundry debtors	15,320
Add profit	3,210		„ Stock	14,000
			„ Fixtures and fittings . .	540
	24,410			
Deduct drawings	500			
		23,910		
		£32,980		£32,980

In many cases of faulty or neglected bookkeeping, in order to save expense, or because no reliable data can be furnished, our instructions may be to convert the books into double entry from the date of being called in. This will mean the preparation of a statement of assets and liabilities from any accounts that have been kept, and from information obtained from the principals; the journalizing of such statement, and the opening of the accounts for the items contained in the statement. Of course, adjustments of the capital and the accounts concerned may subsequently have to be made, as knowledge of errors in such statement comes to hand. Instructions will be given to open the requisite Nominal and Real Accounts, and of the methods of posting, say, monthly totals to them.

Errors of Principle.—Few errors of omission or commission, when entered in the Record Books or posting mediums, would escape detection in Double Entry Accounts; but errors of principle, that is, the incorrect treatment of revenue and capital items often occur owing to imperfect knowledge of the distinction between the two. For instance, the trial balance may be arithmetically correct, and yet serious errors of principle exist in the books. We cannot do better than instance a few, and deal with their correction.

The books of Messrs. William Jones & Co. were balanced as on December 31, 1903, and a Profit and Loss Account and Balance Sheet prepared. The profit for the year, as shown by these accounts, amounted to £2481 6*s.* 4*d.* The following mistakes had been made by the bookkeeper during the year:—

(*a*) A gas engine costing £450 had been debited to "Purchases Account" instead of to "Machinery and Plant Account."

(*b*) An amount of £15 12*s*. 8*d*., received as a final dividend in the estate of G. Smith, the balance of whose account had, in a previous year, been written off as a bad debt, was standing to the credit of a newly opened account under the same name, and was included amongst the "sundry creditors" in the balance sheet.

(*c*) A cheque amounting to £10 4*s*. 8*d*., which had been returned dishonoured, was posted to the debit of "Allowances Account" instead of to the account of B. Brown, from whom it was received.

(*d*) Goods amounting to £52 1*s*. 4*d*. had been returned by R. Robinson, on December 30, 1903, and were taken into stock, but the entries recording the return were not passed through the firm's books until January 4, 1904.

What adjustments would be necessary to rectify these errors, and how would they affect the above-mentioned profit?

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				Dr.			Cr.		
	1903.			£	s.	d.	£	s.	d.
(*a*)	Dec.	31	Machinery and Plant A/c. Dr. To Profit and Loss Adjustment A/c . . . . . (To adjust amount for gas engine purchased debited to Purchases A/c in error)	450	0	0	450	0	0
(*b*)		"	G. Smith. Dr. . . . . . . To Profit and Loss Adjustment A/c . . . . . (Amount received from estate of G. Smith, credited to the latter's personal a/c in error)	15	12	8	15	12	8
(*c*)		"	B. Brown. Dr. . . . . . To Profit and Loss Adjustment A/c . . . . . (Returned cheque debited to Allowances A/c in error)	10	4	8	10	4	8
(*d*)		"	Profit and Loss Adjustment A/c. Dr. . . . . To New Stock A/c . . (For returns by R. Robinson taken into stock but not entered through books till Jan. 4, 1904)	52	1	4	52	1	4

NOTE.—Another method of adjusting the last item would be to debit Profit and Loss Adjustment Account and credit R. Robinson, but this would necessitate the entry of the returns which was passed through the books on January 4, 1904, being written back.

PROFIT AND LOSS ADJUSTMENT ACCOUNT

Dr. Cr.

	£	s.	d.		£	s.	d.
To Stock A/c . . .	52	1	4	By machinery and plant	450	0	0
„ Appropriation A/c . (Balance of profit under-credited)	423	16	0	„ G. Smith . . .	15	12	8
				„ B. Brown . . .	10	4	8
	£475	17	4		£475	17	4

APPROPRIATION ACCOUNT

	£	s.	d.		£	s.	d.
To balance carried down	2905	2	4	By balance	2481	6	4
				„ Adjustment A/c .	423	16	0
					£2905	2	4
				By balance b/d. .	£2905	2	4

Want of Agreement in Trial Balance Totals.—Very fortunate does a bookkeeper consider himself to be should his trial balance agree at the first extraction of the balances. In the event of disagreement, he is much concerned in discovering the difference quickly and with the minimum of trouble. Should self-balancing ledgers be adopted the difference is localized, as if the Trade Ledgers prove, the errors are to be looked for in the Impersonal Ledger.

Another method of checking is the preparation of the trial balance by an analysis of the entries and postings in the ledgers, thus:—

Dr. Cr.

Folio.	Debit balances.	Sales.	Sundry debits.	Transfers.	Cash and discount.	Total.	Credit balances down.	Credit balances.	Purchases.	Cases.	Credits.	Transfers.	Cash.	Total.	Debit balances down.

The totals check the opening balances of the last balance sheet, and also the current period's sales, purchases, cash and discount, transfers, etc.

Should these methods not be effective, and there be a difference, we should consider how such an amount would be likely to occur. Assuming that the self-balancing of the Trade Ledgers proves their accuracy, then we must turn to the Impersonal or General Ledger Accounts. Let us first check the opening balances from the last balance sheet, then the extraction of the trial balance items, taking care that, as often happens, a debit balance has not been placed in the credit column and *vice versâ*. Check the Journal transfers, and inspect carefully such items, as 5*s*. 10*d*., lest they be entered as £5 10*s*., and observe that badly written figures are taken correctly. Careful inspection should be made lest any erasures or crossings out have been made since the checking, and also that the correction of errors and the making of transfers have been properly done.

Of importance in adopting self-balancing ledgers is the arrangement of the record books to suit this system.

In a business such as Mr. Reader's in Chapter I., when three ledgers are in use, Drs., Crs., and Impersonal, the arrangement is simple.

For the Drs. Account the Sales, Returns and Bills Book monthly totals would be taken, and for the Crs. Account the Purchase, Returns and Bill Book monthly totals entered. The Cash Book, to save analysis, should contain separate columns for the Drs. Ledger on the Dr. side and for the Crs. Ledger on the Cr. side to furnish the monthly totals of Cash Book postings to such ledgers.

Another modification to suit Departmental Accounts, and to serve as a check on two or three ledgers, is as shown in the form of Sales Book below, which will indicate the variation in the other books.

SALES JOURNAL

Date.	Order Book folio.	*Name and particulars of goods.*	Price.	Ledger folio.	*Detail.*	*Total.*		Mantles Department.	Dress Materials Department.	Felts Department.	Town Ledger.	Country Ledger.
								Cr. Mantles Account. Impersonal Ledger folio,	Cr. Dress Materials Account. Impersonal Ledger folio,	Cr. Felts Account. Impersonal Ledger folio,	Dr. Towns Ledger Account. Balance Book folio,	Dr. Country Ledger Account. Balance Book folio,

The Day Book would be ruled off and the totals posted to the three Departmental Accounts and two Ledger Accounts (as shown) at the end of each month.

Also Cash Journal analysis as in the case of a bank.

SECTIONAL CASH JOURNAL

Dr.												Cr.											
A.			B.			C.			D.			A.			B.			C.			D.		
Date.	Name.	£ s. d.	Date.	Name.	£ s. d.	Date.	Name.	£ s. d.	Date.	Name.	£ s. d.	Date.	Name.	£ s. d.	Date.	Name.	£ s. d.	Date.	Name.	£ s. d.	Date.	Name.	£ s. d.

Where the magnitude of the business compels the keeping of sectional ledgers, literal or numerical; the columnar books would be impracticable. Therefore separate Day Books for each ledger, an analysis of Cash Book entries, and a Transfer Book is the plan adopted in some houses. The more general system is for each clerk responsible for the keeping of a particular ledger to keep a Posting Journal into which all the various items, debits, and credits, for entry in his ledger are entered for posting.

CHECK JOURNAL

Date.	Dr. Goods.	Cr. Cash and discount.	Cr. Bills.	Cr. Returns.
January 1				
„ 2				
„ 3				
„ to 31				
Totals . .				
Add.—Transfers from other ledgers.				
Balance in ledger December 31.				
Deduct.—Transfers to other ledgers.				

This balance should agree with total balance extracted from ledger itself.

Adjustment Accounts.—Another method recommended in regard to sectional balancing is to keep in each Trade Ledger a General Ledger Adjustment Account into which the details of the respective Drs. and Crs. made in the personal accounts are entered, thus completing the double entry for that ledger thus—

General Ledger Account

Sept. 30. To cash and discount	Sept. 1. By balances . . .
„ „ returns	„ 30. „ sales . . . . . debited to sundry persons in detail . . . .
„ „ bills receivable credited to sundry persons in detail	

In the General Ledger a separate account is kept for each ledger as follows:—

"A" LEDGER ACCOUNT

Sept. 30.	To balance	Sept. 30.	By cash and discount
"	" sales	"	" returns . . . .
		"	" bills received . .

In this way the ledger will include within its pages the materials for a trial balance of its entries, and thus made self-balancing. For example, take the sales for the month entered in the "A" Ledger; in that ledger the various persons are debited with the items making up the total, and that total is credited to the General Ledger Adjustment Account. In the General Ledger the total will be debited to "A" Ledger Account and credited to Sales Account; so with bills, cash, etc.

It will be perceived, however, that the Check Journal, previously described, takes the place of the various Adjustment Accounts just referred to; also that where but two or three ledgers are proved by aggregate postings made by the principal in the General Ledger, the Adjustment Accounts are usually unnecessary.

QUESTIONS AND EXERCISES

21. How does the statement of a firm's affairs in single entry book-keeping differ from one prepared by double entry?

22. How is the period's profit ascertained by single entry?

23. Describe the method you would follow in preparing the final accounts from a badly kept set of books.

24. Outline the method of converting a set of single entry accounts into double entry form.

25. Distinguish between errors of omission, commission, and principle, and give examples of each.

26. In case of disagreement of the trial balance totals how would you proceed to discover the error or errors?

27. Give an example of a departmental Purchase Book, showing rulings for self-balancing ledgers.

28. Explain what is meant by Adjustment Accounts in sectional balancing.

29. The following errors are found in a trader's books. Explain how you would remedy them, and what will be the consequence from the standpoint of accuracy in the accounts if this is not done.

(1) £100 paid for rent is debited to a creditor's account.

(2) £3 discount allowed to a customer is posted to the Dr. of petty cash.

(3) The payment of a creditor's bill for £500 is posted to his debit.

(4) £30 received from sale of a boiler is credited to goods sold account.

30. The undermentioned errors were made by the counting-house staff in the books of Messrs. Black and Brown during the year ended December 31, 1904.

(*a*) On June 30 a builder's charge for the erection of a small shed amounting to £198 was analyzed in the Purchases Journal under the head of "Repairs," and posted to that account.

(*b*) On July 1 a cheque for £18 2*s.* 4*d.* received from James Smith was dishonoured, and was posted to "Allowances Account."

(*c*) On August 12, the total of the previous month's wages was debited to "Manufacturing Wages Account." During the month some new machinery had been put down, and the firm's own men had spent time thereon amounting to £141.

(*d*) On December 28 goods to the value of £64 were returned by Francis White, and were taken into stock, but the returns were not entered in the books until January 2, 1905.

How would you adjust these errors, and how would they affect the annual accounts for the year ended December 31, 1904?

CHAPTER IV

PARTNERSHIP

Definition—Partnership Agreements—Novation—Working Rules of Partnership—Drawings Accounts—Balance Sheet—Goodwill, and its Treatment in the Accounts.

OUR next client, Mr. Serge, the buyer in a large department of a Manchester warehouse, is anxious to negotiate a partnership in a sound concern, introducing a good connection and a fair amount of capital. We have investigated several openings offered to him, finding in one case that his capital would only have postponed bankruptcy, and in another that the character and habits of the principals were such as to prevent his entering into so important and responsible a relationship as partnership. Ultimately a sound business and satisfactory principals are met with, and terms arranged. It is wise that these terms should be embodied, and the interest of each partner should be safeguarded by the provisions of a Partnership Agreement or Deed.

The following are the main points to be considered for inclusion in the document:—

(1) Names of the partners, and style of the firm.

(2) Term of partnership.

(3) Place of business, and the nature of the business to be carried on.

(4) Signing of cheques and bills.

(5) Capital of the firm, and contributions by each partner.

(6) Rate of interest on capital.

(7) Advances by the partners, and rates of interest thereon.

(8) Limit of drawings, and rate of interest to be charged thereon.

(9) Division of profits and withdrawal of same—half-yearly or yearly balances.

(10) The keeping of books of account, and employment of accountant.

(11) Salaries or remuneration to partners for services.

(12) Notice of retirement of any partner.

(13) Conditions to prevent a retiring partner from competing with the firm.

(14) Term for repayment of capital in case of death of a partner; rate of interest to be allowed.

(15) Arrangements for the purchase of goodwill in the event of dissolution.

(16) Final resort to arbitration in case of disputes between partners.

Definition.—Remember the definition that partnership is the relation which subsists between persons carrying on business in common with a view of profit, and that the following classes of partners are liable to third parties:—

1. The active partner is one taking the everyday working share in the management of the business.

2. The sleeping or dormant partner is one who has money invested in the business, but whose name does not appear, and who takes no active part other than that of a controlling influence over the other partners.

3. Nominal partners are those who, without having any actual interest in the business or profits of a partnership, allow their names to appear prominently in the designation of the firm, or who hold themselves out as partners to others.

In regard to the last, it is only just that any one representing himself to be a partner of a firm, and so inducing those who have given credit to the firm on such reputation, should be made liable for holding himself out to be a member of the firm. In legal terms such a person is held liable as a partner by estoppel, *i.e.* stopped by his conduct from denying himself to be a member of the firm. This principle of "holding out" may render a retiring partner liable if he neglects to give notice of retirement from the firm; such notice is usually given by advertisement or circulars to the creditors, notifying the change in the firm.

As a new partner is interested in the value of the assets of the firm, he may very properly insist upon a valuation of the assets of which he is taking a joint share, or ask that the book debts be guaranteed, so that, in the event of losses on Dr. balances, the result of business done prior to his becoming a member of the firm, his capital would not be charged with any portion of such loss. Also, if Crs. balances should be

understated, the correction should not affect the profit of the period in which he is concerned.

In the case of "Serge and Cheviot," the interests of the former have been safeguarded by the provision at the commencement of a reserve for contingencies of £2100—a sum agreed to by the partners as covering any probable loss on the assets.

As Mr. Serge replaces a retiring partner, both are concerned in the matter of liability to the creditors of the old firm.

This is set forth as follows :—

Novation.—The incoming partner is not liable to creditors for the old debts of the firm he has entered, except by novation —the technical term for the contract of substituted liability, by which agreement between the parties concerned the creditor discharges the old firm from its liability and accepts the new firm as his debtor, the new firm accepting the responsibility. In this way a retiring partner is released from the claim and the new partner made liable along with the firm for the debt.

As many business men are content to carry on this business relationship, quite unconcerned as to the absence of written agreements, frequently finding out to their cost the seriousness of such a blunder, we give the working rules of a partnership, in the absence of an agreement modifying them.

1. All the partners are entitled to share equally in the business and must contribute equally towards the losses, whether of capital or otherwise, sustained by the firm.

2. The firm must indemnify every partner in respect of payments made and personal liabilities incurred by him—

(*a*) In the ordinary and proper conduct of the business of the firm; or

(*b*) In or about anything necessarily done for the preservation of the business or property of the firm.

3. A partner making, for the purpose of partnership, any actual payment or advance beyond the amount of capital which he has agreed to subscribe, is entitled to interest at the rate of 5 per cent. per annum from the date of the payment or advance.

4. A partner is not entitled, before the ascertainment of profits, to interest on the capital subscribed by him.

5. Every partner may take a part in the management of the partnership business.

6. No partner shall be entitled to remuneration for acting in the partnership business.

7. Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the partners, but no change may be made in the nature of the partnership business without the consent of all the existing partners.

8. The partnership books are to be kept at the place of business of the partnership (or the principal place, if there is more than one), and every partner may, when he thinks fit, have access to and inspect and copy any of them.

Partnership Accounts

Leaving the consideration of these important legal points, let us proceed to the preparation of the Partnership Accounts from the trial balance placed before us. (For Adjustments, see p. 37.)

December 31, 1902.

	£	s.	d.	£	s.	d.
S. Serge, Capital Account (Jan. 1, 1902) . .				20,000	0	0
C. Cheviot " " . .				18,000	0	0
Machinery and Plant Account	12,000	0	0			
Freehold premises	26,200	0	0			
Sundry creditors				27,600	0	0
Bills Payable Account				4,800	0	0
Reserve Account (for contingencies) . . .				2,100	0	0
Fixtures and Fittings Account	7,200	0	0			
Mortgage on Premises Account				9,000	0	0
Wages Account	15,860	0	0			
Sales Account				90,460	0	0
Purchases Account	62,077	0	0			
Bankers' Account				4874	0	0
Cash Account	940	0	0			
Stock Account (Jan. 1, 1902)	21,820	0	0			
Salaries Account	1,100	0	0			
Carriage "	2,132	0	0			
Interest and Discounts Account				86	0	0
Rates and Taxes Account	502	0	0			
Insurance Account	382	0	0			
Office Expenses Account	208	0	0			
General Trade Expenses Account	2,080	0	0			
Repairs Account	674	0	0			
Interest on Mortgage Account	225	0	0			
S. Serge's Drawing Account (including interest)	3,535	0	0			
C. Cheviot's Drawing Account (including interest)	2,965	0	0			
Sundry debtors	17,020	0	0			
	£176,920	0	0	£176,920	0	0

TRADING AND PROFIT

Dr. TRADING

		£	s.	d.
1902. January 1	To stock on hand	21,820	0	0
December 31	„ purchases	62,077	0	0
„	„ wages	15,860	0	0
„	„ balance "gross profit" carried down to Profit and Loss Account	20,153	0	0
		£119,910	0	0

Dr. PROFIT AND

		£	s.	d.
1902. December 31	To Salaries Account	1,100	0	0
„	„ Carriage Account	2,132	0	0
„	„ Rates and Taxes Account	502	0	0
„	„ Insurance Account	382	0	0
„	„ Office Expenses Account	208	0	0
„	„ General Trade Expenses Account	2,080	0	0
„	„ Repairs Account	674	0	0
„	„ Interest on Mortgage Account	225	0	0
„	„ reserve for interest on Mortgage Account (half year)	225	0	0
„	„ 5% reserve for bad and doubtful debts	851	0	0
„	„ Interest on Capital Account— (£ s. d.) 5% S. Serge 1000 0 0; C. Cheviot 900 0 0	1,900	0	0
„	„ Depreciation Account— (£ s. d.) 10% machinery and plant 1200 0 0; 5% fixtures and fittings 360 0 0	1,560	0	0
„	„ balance "net profit" carried down to Profit and Loss Appropriation Account	8,400	0	0
		£20,239	0	0

Dr. PROFIT AND LOSS

		£	s.	d.
1902. December 31	To reserve fund	840	0	0
„	„ Capital Account—S. Serge, half share	3780	0	0
	C. Cheviot, half share	3780	0	0
		£8400	0	0

AND LOSS ACCOUNT

ACCOUNT Cr.

		£	s.	d.
1902. December 31	By sales	90,460	0	0
"	" stock on hand	29,450	0	0
		£119,910	0	0

LOSS ACCOUNT Cr.

		£	s.	d.
1902. December 31	By balance Trading Account	20,153	0	0
"	" Interest and Discount Account	86	0	0
		£20,239	0	0

APPROPRIATION ACCOUNT Cr.

		£	s.	d.
1902. December 31	By balance Profit and Loss Account, "net profit"	8400	0	0
		£8400	0	0

BALANCE SHEET,

As at December 31st, 1902.

Dr. Cr.

Liabilities.		£	s.	d.
To bills payable		4,800	0	0
„ sundry creditors		27,600	0	0
„ bankers "overdraft"		4,874	0	0
„ Mortgage on Premises Account	9,000 0 0			
Reserve Interest Account	225 0 0			
		9,225	0	0
„ Reserve Account . . .	2,100 0 0			
Plus 10°/ₒ *net profit* .	840 0 0			
		2,940	0	0
„ *Capital Account*—				
S. Serge	20,000 0 0			
Less Drawings Account	3,535 0 0			
	16,465 0 0			
Plus interest . . .	1,000 0 0			
„ *half share net profit*	3,780 0 0			
		21,245	0	0
„ *Capital Account*—				
C. Cheviot	18,000 0 0			
Less Drawings Account	2,965 0 0			
	15,035 0 0			
Plus interest . . .	900 0 0			
„ *half share net profit* . . .	3,780 0 0			
		19,715	0	0
		£90,399	0	0

Assets.		£	s.	d.
By Cash Account.		940	0	0
„ sundry debtors	17,020 0 0			
Less 5°/ₒ *reserve for bad debts*	851 0 0			
		16,169	0	0
„ Machinery and Plant Account	12,000 0 0			
Less 10°/ₒ *depreciation*	1,200 0 0			
		10,800	0	0
„ Freehold Premises Account . . .		26,200	0	0
„ fixtures and fittings . .	7,200 0 0			
Less 5°/ₒ *depreciation* .	360 0 0			
		6,840	0	0
„ stock on hand		29,450	0	0
		£90,399	0	0

Adjustments

In consultation with the partners, the following adjustments are made prior to the division of profits.

1. Interest on partners' capital at 5 per cent. per annum.

2. Annual depreciation of machinery and plant at 10 per cent., and on fixtures and fittings at 5 per cent.

3. Provision for bad and doubtful debts at 5 per cent.

4. Provision for half-year's interest on the mortgage at 5 per cent. per annum to December 31, 1902.

5. Ten per cent. of the net profit (if any) to be carried to the reserve fund.

Stock was agreed as being, on December 31, of the cost value of £29,450.

A copy of these accounts is handed to each partner, who, by way of acceptance of the accuracy of the statements, signs the balance sheet entered in the private ledger of the firm.

Comparison of the balance sheet with that of a sole trader (p. 21), shows the main difference to be the giving of the particulars concerning each partner's capital, showing at a glance the additions or deductions to or from his capital in the business during the year.

We also notice that in place of the definite salary charged by Mr. Reader for his services in managing the business, the present partners have withdrawn considerable sums on which interest has been charged, as agreed by the partners. Inasmuch as interest is credited to capital, it is only fair, in view of unequal drawings, that interest should be debited on the sums withdrawn; there must, however, be an agreement to that effect.

In the Drawings Account an interest column is frequently provided for the interest calculations, and the total carried to the outer cash column at the end of the period, thus—

A. Drawings Account

	Interest to Dec. 31. £	s.	d.	£	s.	d.	
Jan. 31. To cash . .	2	5	10	50	0	0	Dec. 31. By transfer to
Feb. 28 „ . .	2	1	8	50	0	0	Capital Account
March 31 „ . . .	1	17	6	50	0	0	
And so on to Dec. 31							
Interest . .				—			

Should there be credits of cash to the account, interest would be allowed on such sums. In the above example the withdrawals have been equal amounts drawn at the end of each month; frequently, however, the amounts and sums vary considerably, necessitating calculations of interest for the number of days to December 31.

Goodwill

The introduction of Mr. Serge's capital, connection, and services was considered sufficient inducement to admit him as a partner to the firm. It will readily be understood, however, that in arranging a junior partnership with an old-established concern, the question of a consideration for goodwill will arise.

Goodwill is the value placed upon the name, connection, and the income-earning power of the business. The basis of valuation varies so much that it may be said to resolve itself into a matter of bargaining. One year's share of the profits taken on the average of the last three years; or the sum may be fixed upon as a proportional part of from two to five years' profits.

The value of goodwill, carrying as it does the connection of a firm, is evidenced to a retiring partner in the fact that on relinquishing his share of it, he is debarred from calling upon or circularizing the firm's customers, thus rendering the work of establishing another business a difficult and risky one.

Let us consider the following instances met with in practice:—

1. "X.," an accountant, takes into partnership "Y.," and shows the latter that had he been in partnership with him during the last three years, his share of profits would have averaged £300 per annum. Therefore, he requires a premium of £600 as a cash payment for the prospect of entering a business with this income presumably assured, and with the possibility of its being increased.

No entry would be needed in the firm's books, the £600 being paid direct to the banking account of "X."

2. (*a*) In the event of cash being needed in the business, as in the case of a solicitor financing clients, or a trader short of capital, then it would be advisible for "Y." to insist upon the sum being paid, along with the capital he introduces, into the bank.

The entry in the firm's books would be—

Bank	Dr. £600	
"X" Capital Account . . .		£600

(*b*) The admission of a junior partner, "C.," who agrees to contribute £2000 capital and to pay £900 to "A." and "B." for a one-third share of the profits.

As "A." and "B." have divided profit equally, the £900 would be entered :—

Bank	Dr. £900	
"A." Capital Account . . .		£450
"B." " " . . .		£450

3. On entering into partnership with L. and M., N. objects to the payment of cash for goodwill, additional to £5000 introduced by him as capital, but agrees to allow L. and M. to take credit in the assets for £1000 for such goodwill. The entry would be :—

Goodwill Account . . .	Dr. £1000	
"L." Capital Account . . .		£750
"M." " " . . .		£250

The two having divided profits in the proportions of three-fourths and one-fourth, the agreement with "N." being one-third interest in the business, he will be entitled on realization to one-third share of any appreciation of the goodwill. For instance, in the event of selling to a company for £2800, his share of the profit would be £600. On the other hand, should the goodwill, on winding-up the concern, be valueless, one-third of the loss, £333 6*s*. 8*d*., would be borne by "N." To guard against the latter eventuality he might be able to arrange with the old partners that any such loss would be charged to them only.

The following examples will illustrate the treatment in the accounts :—

Example I

Red, White, and Blue agree to dissolve partnership. White and Blue retiring and Red taking over the goodwill on the basis of two years' profits, calculated on an average of the previous

five years, less 10 per cent. The result of the five years' trading has been—

		£
1896	Profit	2400
1897	„	1680
1898	Loss	950
1899	Profit	1120
1900	„	1060

The capital of each partner before the figures are adjusted is as follows:—

Red.	White.	Blue.
£3100	£2900	£1280

Prepare General and Personal Accounts, showing the result of the dissolution.

JOURNAL

	£	s.	d.	£	s.	d.
Goodwill Account. Dr.	1911	12	0			
To Red (Capital Account)				637	4	0
„ White „				637	4	0
„ Blue „				637	4	0
(Raising goodwill, and crediting to partners equally, in absence of instruction to contrary. Value as per agreement).						
Cash. Dr.	5454	8	0			
To Red (Capital Account)				5454	8	0
(Being amount brought in to pay out White and Blue).						
White. Dr.	3537	4	0			
Blue. Dr.	1917	4	0			
To cash				5454	8	0

PROFIT AND LOSS STATEMENT

		£	s.	d.			£	s.	d.
1898.	To loss . .	950	0	0	1896.	By profit . .	2400	0	0
	„ balance .	5310	0	0	1897.	„ „ . .	1680	0	0
					1899.	„ „ . .	1120	0	0
					1900.	„ „ . .	1060	0	0
		£6260	0	0			£6260	0	0

	£	s.	d.	
Balance as above	5)5310	0	0	
Average profit	1062	0	0	
Less allowance of 10 per cent.	106	4	0	
	955	16	0	× 2
= amount paid by Red for Goodwill	£1911	12	0	

GOODWILL

Dr.	£	s.	d.		£	s.	d. Cr.
To value as per agreement .	1911	12	0				

RED. CAPITAL ACCOUNT

				By balance	3100	0	0
				„ share of goodwill. . .	637	4	0
				„ cash	5454	8	0
					£9191	12	0

WHITE. CAPITAL ACCOUNT

To cash . .	3537	4	0	By balance	2900	0	0
				„ share of goodwill. . .	637	4	0

BLUE. CAPITAL ACCOUNT

To cash . .	1917	4	0	By balance	1280	0	0
				„ share of goodwill. .	637	4	0

CASH ACCOUNT

To Red . .	5454	8	0	By White	3537	4	0
				„ Blue	1917	4	0
	£5454	8	0		£5454	8	0

EXAMPLE II

Q., E., and D. are equal partners, with capital of £1200, £1300, and £1400 respectively. They decide to admit S. into equal partnership upon payment in cash of £1250 for one-fourth share of the goodwill, and £1500 as his capital, which sums are to remain in the concern. The liabilities of the firm are £2100, and by arrangement the assets, consisting of stock £2000, book debts £3200, horses, carts, etc., £300, and plant £500, are to be subjected to an all-round depreciation of 5 per cent. A Goodwill Account which has not previously existed is also to be raised in the books.

Q., E., AND D. JOURNAL ENTRIES

	£	s.	d.	£	s.	d.
Cash. Dr.	1250	0	0			
To Q., one-third share of purchase of goodwill by S.				416	13	4
„ E., one third share of purchase of goodwill by S.				416	13	4
„ D., one-third share of purchase of goodwill by S.				416	13	4
Cash. Dr.	1500	0	0			
To S., Capital Account				1500	0	0
Goodwill Account. Dr.	5000	0	0			
To Q., one-fourth share of goodwill				1250	0	0
„ E., „ „ „				1250	0	0
„ D., „ „ „				1250	0	0
„ S., „ „ „				1250	0	0
Profit and Loss Account. Dr.	300	0	0			
To stock				100	0	0
„ book debts				160	0	0
„ horses, carts, etc.				15	0	0
„ plant				25	0	0
(Discount on assets agreed upon)						
Q., Capital Account. Dr.	100	0	0			
E., „ „ „	100	0	0			
D., „ „ „	100	0	0			
To Profit and Loss Account				300	0	0
(Share of loss consequent on revaluation of assets)						

CASH ACCOUNT

Dr. Cr.

	£	s.	d.		£	s.	d.
To amount received from S. in payment for goodwill (one-fourth)	1250	0	0	By balance carried down	2750	0	0
To S., Capital Account	1500	0	0				
	2750	0	0		£2750	0	0
To balance	£2750	0	0				

GOODWILL ACCOUNT

	£	s.	d.		£	s.	d.
To agreed amount transferred to Capital A/cs	5000	0	0	By balance carried down	5000	0	0
	£5000	0	0		£5000	0	0
„ Balance b/d	£5000	0	0				

Q. Capital Account

Dr.	£	s.	d.		£	s.	d. Cr.
To Profit and Loss Account. . .	100	0	0	By balance . .	1200	0	0
„ balance c/down	2766	13	4	„ cash . . .	416	13	4
				„ goodwill . .	1250	0	0
	£2866	13	4		2866	13	4
				„ balance . .	£2766	13	4

E. Capital Account

To Profit and Loss Account. . .	100	0	0	By balance . .	1300	0	0
„ balance c/down	2866	13	4	„ cash . . .	416	13	4
				„ goodwill . .	1250	0	0
	£2966	13	4		2966	13	4
				„ balance . .	£2866	13	4

D. Capital Account

To Profit and Loss Account. . .	100	0	0	By balance . .	1400	0	0
„ balance c/down	2966	13	4	„ cash . . .	416	13	4
				„ goodwill . .	1250	0	0
	£3066	13	4		3066	13	4
				„ balance . .	£2966	13	4

S. Capital Account

To balance c/down	2750	0	0	By cash . . .	1500	0	0
				„ goodwill . .	1250	0	0
	£2750	0	0		2750	0	0
				„ balance . .	£2750	0	0

Q., E., D., and S. Balance Sheet.

Liabilities.				Assets.			
Sundry Liabilities	2,100	0	0	Stock	1,900	0	0
Capital £ s. d.				Book debts 3200 0 0			
Q. 2766 13 4				Less reserve 160 0 0			
E. 2866 13 4					3,040	0	0
D. 2966 13 4				Horses, carts, etc.	285	0	0
S. 2750 0 0				Plant	475	0	0
				Goodwill	5,000	0	0
	11,350	0	0	Cash	2,750	0	0
	£13,450	0	0		£13,450	0	0

Example III

C. enters into partnership with A. and B., and arranges to pay £2000 for goodwill, the cash to be left in the business, and introduce £8000 as capital. A. and B. are equal partners, and the following is their balance sheet:—

	£		£
Creditors	2,400	Debtors, after allowing for discounts	11,400
Reserve	2,200	Cash	900
Capital of A.	20,000	Stock	9,450
„ B.	9,650	Plant and machinery	3,000
		Freehold property	9,500
	£34,250		£34,250

A. and B. agree to allow £1000 of the reserve to remain as a provision for bad debts, to allow 5 per cent. off the plant and machinery, and 1 per cent. off the freehold property.

After making the necessary adjustments, placing £1000 of the goodwill to A. and B. respectively, and also the balance of the reserve after charging the provision for debts and depreciations, the balance sheet of the new partnership will be—

Balance Sheet

	£	s.		£
Creditors	2,400	0	Debtors	11,400
Reserve	1,000	0	Cash	10,900
Capital of A.	21,477	10	Stock	9,450
„ B.	11,127	10	Plant and machinery	2,850
„ C.	8,000	0	Freehold property	9,405
	£44,005	0		£44,005

Although these instances have been given of the treatment of goodwill, it should be stated that, as goodwill is generally considered an unsatisfactory asset in a firm's accounts, it is preferable that the incoming partner should make a cash payment to the other partners' private accounts; or add it to the partners' Capital Accounts in the business, debiting cash with the same. The question of the value of the goodwill would then be left over until a dissolution or winding up of the partnership.

The following is an example:—

Example IV

On January 1, 1906, B. becomes partner with A. in a business which had been carried on by the latter. A.'s assets on that date were valued for the purpose of the partnership as follows:—

	£
Premises and plant	2500
Stock	1950
Book debts	1250
Cash at bank	250

and his trade liabilities taken over by the partnership amounted to £1750. B. pays into the bank £3250, of which it is agreed £750 shall be credited to A. as the purchase price of one-half the goodwill.

Journal

	£	s.	d.	£	s.	d.
Premises and plant. Dr.	2500	0	0			
Stock	1950	0	0			
Book debts	1250	0	0			
Cash at bank	250	0	0			
To Trade liabilities				1750	0	0
„ A.'s capital				4200	0	0
	£5950	0	0	£5950	0	0
Cash. Dr.	3250	0	0			
To sundries—A.'s capital				750	0	0
B.'s „				2500	0	0

Balance Sheet

January 1, 1906

Dr.	£	s.	d.	Cr.	£	s.	d.
To creditors	1750	0	0	By debtors	1250	0	0
„ Capital Accounts—A.	4950	0	0	„ cash at bank	3500	0	0
B.	2500	0	0	„ stock	1950	0	0
				„ premises and plant	2500	0	0
	£9200	0	0		£9200	0	0

QUESTIONS AND EXERCISES

31. Define partnership.

32. Distinguish between the different classes of partners.

33. Give instances of persons interested in the profits of a business without involving the liability of partnership.

34. Give an example of a Partner's Drawing Account showing interest calculations.

35. Define novation, goodwill.

36. What are the working rules of a partnership in the absence of an agreement?

37. Mention the manner in which goodwill may be dealt with in the accounts.

38. Give an example of a partnership balance sheet showing the Partners' Capital Accounts.

39. Smith, Brown and Robinson enter into partnership, as equal partners, for the purpose of purchasing the successful business of Peter White, who is retiring.

The business was taken over as on January 1, 1905, as it stood, upon the basis of the last balance sheet which was as follows:—

Peter White—

BALANCE SHEET

December 31, 1904

	£	s.	d.		£	s.	d.
To Capital Account .	20,540	0	0	By leasehold factory .	12,540	0	0
„ sundry creditors .	3,218	0	0	„ machinery and plant	8,200	0	0
„ Reserve Account				„ Patents Account .	600	0	0
for depreciation .	608	0	0	„ sundry debtors . .	1,560	0	0
				„ stock on hand . .	1,458	0	0
				„ difference in books	8	0	0
	£24,366	0	0		£24,366	0	0

The purchase price of the business as a going concern was agreed at £25,000, which amount was duly paid to Peter White.

Cash was paid into the new firm's banking account by the partners as follows:—Smith, £12,000; Brown, £10,000; Robinson, £6000.

Before opening the books of the new firm it was agreed (*a*) to write off the difference in the books; (*b*) to transfer the Reserve Account for depreciation to Machinery and Plant Account, and to write off a further £200 as depreciation; and (*c*) to write off £200 from Patents Account.

Make the entries necessary to record the above transactions in the books of the new firm, and prepare a balance sheet disclosing the position of Smith, Brown and Robinson upon commencing business.

CHAPTER V

TERMINATION OF PARTNERSHIP

Dissolution—Statement of Accounts—Exceptions to Partnership Liability—Insurance to provide for withdrawal of Capital—Realization Account—Treatment of Deficiency of Insolvent Partner.

PASSING from the consideration of entering into partnership, we now deal with the termination of that relationship.

Subject to agreement, every partnership is dissolved, as regards all the partners, by the death or bankruptcy of any partner; at the option of the other partners, in the event of any partner suffering his share of the partnership property to be charged for his separate debt; by the Court in such cases as lunacy, fraud, etc. Termination may also take place by effluxion of time, and if the partnership has not been entered into for a fixed term, on the giving of proper notice by any partner to the others, as by reason of business or personal differences between the partners, or of declining business and continued losses.

The rules observed, subject again to agreement, in settling accounts between the partners are as follows:—

(*a*) Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and last, if necessary, by the partners individually in the proportion in which they were entitled to share profits.

(*b*) The assets of the firm, including the sums, if any, contributed by the partners to make up losses or deficiencies of capital, shall be applied in the following manner and order:—

(1) In paying the debts and liabilities of the firm to persons who are not partners therein.

(2) In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital.

(3) In paying to each partner rateably what is due from the firm to him in respect of capital.

(4) The ultimate residue, if any, shall be divided among the partners in the proportion in which profits are divisible.

Unless carefully provided for in the partnership articles, the settlement of the Partnership Accounts in the winding up usually presents considerable difficulty. In such cases as the death, the expulsion, or the withdrawal of a partner, the fact of the continuance of the business by the other members of the firm, or its being wound up finally in settlement of the claims, will of necessity have an important bearing on the interests of the partners.

In continuing the business, the value of the retiring partner's share has to be ascertained. This often involves a consideration of the present value of the assets and the valuation of goodwill. Property, plant, and fixtures may have been written down excessively, and goodwill probably not appear in the accounts; or, on the other hand, wasting assets may not have been depreciated sufficiently, and allowances may have to be made for bad and doubtful debts, and for claims against the firm. An executor, or the representative of a retiring partner would, in the former event, doubtless insist upon the necessary adjustments being made prior to the settlement; whilst in the second, the continuing partners would probably claim a correction of the accounts to prevent their interests suffering by taking over inflated assets.

It would be well to note here that section 42 of the Partnership Act, 1890, provides that—

"Where any member of a firm has died or otherwise ceased to be a partner, and the surviving or continuing partners carry on the business of the firm with its capital or assets without any final settlement of accounts as between the firm and the outgoing partner or his estate, then, in the absence of any agreement to the contrary, the outgoing partner or his estate is entitled at the option of himself or his representatives to such share of the profits made since the dissolution as the Court may find attributable to the use of his share of the partnership assets, or to interest at the rate of 5 per cent. per annum on the amount of his share of the partnership assets."

Let us assume the following statement to be placed before

us as the basis of an adjustment between "X.," "Y.," and the executors of "Z.," a deceased partner:—

	Book value.	Agreed value.
	£	£
Premises	2600	3000
Plant	1250	1500
Office furniture	Nil	50
Goodwill	Nil	1500

To give effect in the accounts to the above, Premises and Plant Accounts would be debited with the increases in the values and accounts opened for office furniture and goodwill, and Capital Adjustment Account credited with the total; the final Journal entry, on the supposition that profits are divided equally, being—

	£	s.	d.	£	s.	d.
Capital Adjustment Account. Dr. .	2200	0	0			
To "X." Capital Account				733	6	8
„ "Y." „ „				733	6	8
„ "Z." „ „				733	6	8
For one-third share to each partner of revaluation of assets.						

If, however, X. and Y. insist upon certain assets being written down, and a reserve being made against the loss on realization of the book debts, we might have a considerable reduction of Z.'s capital, which would possibly result in the winding up of the business, or a resort to arbitration. Cases such as these impress upon us the necessity of agreements setting forth very clearly the procedure to be followed in the event of a change in the firm.

Another important consideration is the payment of a retiring member's share. The immediate withdrawal may in many cases seriously cripple the financial resources of the firm, and thus reduce their trading possibilities, hence the desirability of a clause in the partnership agreement for allowing a reasonable time for the payment of the sum, say by quarterly amounts extending over one or two years, or even for its retention in the concern as an investment. In both cases interest would be allowed for the convenience.

Exceptions to Partnership Liability

Bearing on this it may be noted that partnership liability does not follow by reason only of the receipt of a share of the profits of a business, particularly in the following cases:—

(*a*) The receipt by a person of a debt or other liquidated amount, by instalments or otherwise, out of the accruing profits of a business.

(*b*) A contract for the remuneration of a servant or agent of a person engaged in the business, by a share of the profits of the business.

(*c*) A person, being the widow or child of a deceased partner, and receiving by way of annuity a portion of the profits made in the business in which the deceased person was a partner.

(*d*) The advance of money by way of loan to a person engaged or about to engage in any business, on a contract with that person that the lender shall receive a rate of interest varying with the profits, or shall receive a share of the profits arising from carrying on the business, provided that the contract is in writing, and signed by or on behalf of all the parties thereto.

(*e*) A person receiving, by way of annuity or otherwise, a portion of the profits of a business in consideration of the sale by him of the goodwill of the business.

An important feature in regard to cases (*d*) and (*e*) is, that in the event of the bankruptcy or insolvency of the borrower of the loan or the purchaser of the goodwill, the lender of the money and the seller of the goodwill are not entitled to recover their claims until the other creditors for valuable consideration have received payment in full; in other words, they are deferred creditors until the estate pays 20*s*. in the £. Should, however, such a one hold collateral security, he is entitled to realize the same on account of his loan.

Insurance as provision for withdrawal of Capital

To guard against the serious inconvenience likely to result from the withdrawal of capital owing to the death of a partner holding a large interest in the concern, some firms very prudently effect a joint insurance on the lives of the partners to provide funds to pay out the share in such an event. The charging of the premiums would be a matter of arrangement between the members of the firm.

As an illustration, consider the following problem given in an accountant's examination recently:—

A firm of merchants, A., B., and C., to provide against dislocation of business in the event of the death of any one of the partners, take out a policy for £3000 upon their joint lives. The premium, £150 per annum, is charged as a business expense. After seven years' payment, C. dies. Assuming they are equal partners, you are required to adjust matters between them after receipt of the amount of the policy.

In the absence of a more definite statement as to the agreement between the partners concerned, the following methods of dealing with the question might be placed before the student:—

1. Assuming all the money received goes to the survivors—

	£	s.	d.	£	s.	d.
Cash or bank. Dr.	3000	0	0			
To A., Capital Account				1500	0	0
„ B. „ „				1500	0	0
Being amount of policy received on death of C.						

2. If the cash goes equally to A., B., and the executors of C.—

	£	s.	d.	£	s.	d.
Cash or bank. Dr.	3000	0	0			
To A., Capital Account				1000	0	0
„ B. „ „				1000	0	0
„ executors of C.				1000	0	0

3. If it is intended that the amount should go to the surviving partners after crediting each partner proportionately with the amount of the premiums paid—

	£	s.	d.	£	s.	d.
Cash or bank. Dr.	3000	0	0			
To A., Capital Account				350	0	0
„ B. „ „				350	0	0
„ C. „ „				350	0	0
Being refund of premiums paid on joint policy						
To A., Capital Account				975	0	0
„ B. „ „				975	0	0
Being balance due to A. and B., the survivors, after refunding to each partner proportionately the amount of the premiums paid.						

In the third case, interest on the premiums paid might also be taken into account.

Realization of Assets

Coming now to the accounts in the winding up of the business, we find the final settlement to be shown by—

(1) The Realization Account.

(2) Cash Account.

(3) The Partners' Accounts.

Of these only the first need be explained. The Realization Account is charged with the assets as stated on the Cr. side of the balance sheet (the cash balance being entered in the Cash Account), and also with the expenses of realization; whilst on the Cr. side are entered the sums realized for each asset; the balance which is profit or, more frequently, loss on realization being transferred to the Partners' Capital Accounts in the proportions in which profits of the trading have been divided.

Now for examples to illustrate the method of dealing with partnership settlements.

Example I

Messrs. Black and White were equal partners in a retail boot shop. They decided to retire and dispose of their business as on December 31, 1903. At the close of the year their balance sheet was as follows:—

Balance Sheet

December 31, 1903

	£	s.	d.		£	s.	d.
To B., Black Capital A/c	3050	0	0	By lease	1250	0	0
,, W., White ,, ,,	960	0	0	,, fixtures	220	0	0
,, Sundry creditors . .	480	0	0	,, sundry debtors . .	840	0	0
				,, stock	2060	0	0
				,, cash at bank . . .	120	0	0
	£4490	0	0		£4490	0	0

The lease and fixtures were disposed of for £2700, and the cash duly received. The book debts were collected, and realized £752. The stock was sold by auction and produced £1340 after payment of commission and expenses. The sundry creditors were paid off, £38 being allowed for discount. The expenses of realization amounted to £87.

As bookkeeper to the firm, prepare whatever accounts may

be necessary to show the result of the realization and the amount receivable by each partner.

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		Dr. £	s.	d.	Cr. £	s.	d.
Realization Account. . . Dr.	7	4370	0	0			
To sundries—							
Lease Account. . . .	1				1250	0	0
Fixtures Account . . .	2				220	0	0
Sundry debtors . . .	3				840	0	0
Stock	4				2060	0	0
(Being transfer to realization account of sundry assets for disposal)							
Cash . . . . Dr.	6	2700	0	0			
To Realization Account . .	7				2700	0	0
(Being cash received for lease and fixtures)							
Cash . . . . Dr.	6	752	0	0			
To Realization Account . .	7				752	0	0
(For cash received on account of book debts)							
Cash . . . . Dr.	6	1340	0	0			
To Realization Account . .	7				1340	0	0
(For net proceeds on disposal of stock by auction)							
Sundry creditors . . . . Dr.	5	480	0	0			
To cash	6				442	0	0
„ Realization Account . .	7				38	0	0
(For cash paid and discount allowed on payment of sundry creditors)							
Realization Account. . . Dr.	7	87	0	0			
To cash	6				87	0	0
(Being expenses on realization of assets)							
Realization Account. . . Dr.	7	373	0	0			
To B., Black Capital Account	8				186	10	0
„ W., White Capital Account	9				186	10	0
(Transfer of profit on realization of assets, etc.)							

LEDGER

1 **Lease Account**

Dr. Cr.

				£	s.	d.					£	s.	d.
1903. Dec.	31	To balance .		1250	0	0	1903. Dec.	31	By Realization Account	1	1250	0	0

2 **Fixtures Account**

Dec.	31	To balance .		220	0	0	Dec.	31	By Realization Account	1	220	0	0

3 **Sundry Debtors Account**

Dec.	31	To balance .	1	840	0	0	Dec.	31	By Realization Account		840	0	0

4 **Stock Account**

Dec.	31	To balance .		2060	0	0	Dec.	31	By Realization Account	1	2060	0	0

5 **Sundry Creditors Account**

		To Cash Account	1	480	0	0	Dec.	31	By balance .		480	0	0

6 **Cash Account**

Dec.	31	To balance .		120	0	0			By sundry crs. . .	1	442	0	0
		„ Realization A/c—lease and fixtures	1	2700	0	0			„ expenses	1	87	0	0
		Book debts .	1	752	0	0			„ Balance c/d .		4383	0	0
		Stock .	1	1340	0	0							
				£4912	0	0					£4912	0	0
		„ Balance b/d .		£4383	0	0							

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Realization Account

Dr. Cr.

		£	s.	d.			£	s.	d.
To sundry assets .	1	4370	0	0	By cash . .	1	2700	0	0
„ cash for expenses	1	87	0	0	„ „ . .	1	752	0	0
„ balance c/d . .	1	373	0	0	„ „ . .	1	1340	0	0
					„ discount allowed by sundry crs.	1	38	0	0
		£4830	0	0			£4830	0	0
To W. White Capital A/c	1	186	10	0					
To B. Black Capital A/c	1	186	10	0					
		£373	0	0	By balance b/d . .		373	0	0

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B. Black's Capital Account

1904.	To balance c/d . .		3236	10	0	1903. Dec.	31	By balance .		3050	0	0
								„ profit on realization of assets .	1	186	10	0
										£3236	10	0
								By balance b/d . .		3236	10	0

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W. White's Capital Account

	To balance c/d		1146	10	0	Dec.	31	By balance .		960	0	0
								„ profit on realization of assets .	1	186	10	0
										1146	10	0
								By balance b/d . .		1146	10	0

Summary

Cash. Dr. Balance	£4383	0	0
B. Black's Capital Account. Cr. balance	£3236	10	0
W. White's „ „ „ „	1146	10	0
	£4383	0	0

Example II

A. and B. carried on business in partnership for several years, dividing profits, two-thirds to A., and one-third to B., the original capital of £900 having been provided in those proportions. On the death of A., C. was appointed to realize and distribute the assets. The last balance sheet was dated September 30, 1902. A. died March 31, 1903. The amount realized was £3000. There was due to creditors £1000; for rent, rates, and other liabilities, £200; costs and expenses in relation to the winding-up of the business, £100. The Partners' Accounts were—A.'s Capital Account, £600; Current Account in credit, £750; B.'s Capital Account £300; Current Account in credit, £700.

Set out the partners' Ledger Accounts, credit A. with interest at 5 per cent. on £50 for half a year, and make out a final statement and adjust the partners' accounts, showing the balance payable to each. Income tax not to be taken into account.

Realization Account

Dr.	£	s.	d.	Cr.	£	s.	d.
To book value of assets.	3550	0	0	By proceeds of sale of assets	3000	0	0
„ costs of realization .	100	0	0	„ A. two-thirds of loss	434	3	4
„ A.'s Account interest	1	5	0	„ B. one-third . . .	217	1	8
	£3651	5	0		£3651	5	0

Cash Account

Dr.	£	s.	d.	Cr.	£	s.	d.
To assets	3000	0	0	By creditors	1000	0	0
				„ rent, etc.	200	0	0
				„ costs	100	0	0
				„ A.	917	1	8
				„ B.	782	18	4
	£3000	0	0		£3000	0	0

A.'s Account

Dr.	£	s.	d.	Cr.	£	s.	d.
To two-thirds of loss on realization . . .	434	3	4	By capital	600	0	0
" balance down . . .	917	1	8	" Current Account . .	750	0	0
				" interest, six months at 5 per cent. on £50.	1	5	0
	1351	5	0		1351	5	0
To cash . . .	£917	1	8	By balance .	£917	1	8

B.'s Account

Dr.	£	s.	d.	Cr.	£	s.	d.
To one-third loss on realization	217	1	8	By capital	300	0	0
" balance down . . .	782	18	4	" Current Account . .	700	0	0
	1000	0	0		1000	0	0
To cash . . .	£782	18	4	By balance .	£782	18	4

Deficiency of Insolvent Partner

We have now to consider the case of one of the partners of a firm being unable to make good his deficiency of capital and contribute to the loss resulting from the realization of the firm's assets. A decision of Mr. Justice Joyce in the case of *Garner* v. *Murray* is to the effect that the proportions of the solvent partners in the deficiency are to be brought in and credited to the Deficiency Account, and the insolvent partner's share of deficiency is to be left standing to the debit of the Deficiency Account. The balance sheet should then show on the liabilities side the solvent partners' Capital Accounts, and on the assets side the Cash, being the proceeds of realization, together with the insolvent partner's share of deficiency and the debit to him. The Cash should then be divided rateably between the solvent members of the firm.

However, considerable discussion has recently taken place on this legal reversal of the custom which previously obtained of charging the solvent partners with the insolvent partner's deficiency in the same proportions as profits were divided, that is, in considering the loss resulting from a partner's failure to

make good his debit in the same manner as a loss arising from an ordinary trade debtor—this interpretation being thought to be the correct and just one in accordance with section 44 of the Partnership Act. The opinion is very largely held that the latter view is correct, and that the principle laid down in the above case will not be maintained. In view of the former being a legal decision, the two methods of the treatment of the account are given in the following example :—

Example III

A., B., and C. are equal partners. Their balance sheet at a certain date was—

	£	s.	d.		£	s.	d.
A., Capital Account . .	2000	0	0	Book debts	1200	0	0
B. " " . .	1000	0	0	Stock	1100	0	0
Creditors	500	0	0	Plant	700	0	0
				C., Capital Account . .	500	0	0
	£3500	0	0		£3500	0	0

C. is insolvent and cannot bring anything more into the partnership. They decide to wind-up, and dispose of the assets for £1900, and the expenses of realization amount to £100. Close the accounts of the firm.

Method adopted prior to Garner v. *Murray*

Realization Account

	£	s.	d.		£	s.	d.
To sundry assets . . .	3000	0	0	By cash	1900	0	0
" expenses	100	0	0	" deficiency c/d . . .	1200	0	0
	£3100	0	0		£3100	0	0
To deficiency b/d. . .	1200	0	0	By A. one-third . . .	400	0	0
				" B. one-third . . .	400	0	0
				" C. one-third . . .	400	0	0
	£1200	0	0		£1200	0	0

Balance Sheet (after close of Realization Account)

A., Capital Account . .	1600	0	0	Cash	1800	0	0
B. " " . .	600	0	0	C., Capital Account . .	900	0	0
Creditors	500	0	0				
	£2700	0	0		£2700	0	0

As C. cannot contribute anything, the debit on his Capital Account is divided between A. and B. in the same proportions as they divided profits as between themselves. After doing this and paying off the creditors the balance sheet is—

	£	s.	d.		£	s.	d.
A., Capital Account . .	1150	0	0	Cash	1300	0	0
B. " " . .	150	0	0				
	£1300	0	0		£1300	0	0

and the cash is divided accordingly.

Following Garner v. *Murray decision*

(1) A solvent partner is not liable (*qy.* as a partner) to contribute for an insolvent partner who fails to pay his share.

(2) Contributions due from solvent partners for losses and deficiencies should be actually brought in (not charged in account).

A. and B. must therefore each bring in £400, and only C.'s share of the deficiency goes to the balance sheet.

BALANCE SHEET (after close of Realization Account)

	£	s.	d.			£	s.	d.
A., Capital Account . .	2000	0	0	Cash		2600	0	0
B. " " . .	1000	0	0	C—				
Creditors	500	0	0	Debit of capital	£500			
				Share of deficiency	400			
					—	900	0	0
	£3500	0	0			£3500	0	0

Pay creditors, and it gives the following:—

	£	s.	d.		£	s.	d.
A., Capital Account . .	2000	0	0	Cash	2100	0	0
B. " " . .	1000	0	0	C. (irrecoverable) . . .	900	0	0
	£3000	0	0		£3000	0	0

Divide the cash between A. and B. by way of dividend of 14*s*. in the £, *i.e.*—

A. $\frac{2000}{3000}$ths of £2100 = £1400
B. $\frac{1000}{3000}$ths of £2100 = £700

£2100

QUESTIONS AND EXERCISES

40. State when, if ever, an outgoing partner of a firm is entitled to share in the profits of the firm, made after the dissolution of the partnership.

41. In preparing the accounts of a partnership firm, enumerate the various points to which you should give special attention in order to safeguard each partner's interest.

42. What are the rules for the distribution of assets in a final settlement of accounts between partners?

43. In the absence of an agreement state the rules for settling accounts between partners on dissolution.

44. Discuss methods of making provision for the withdrawal of capital from a partnership concern.

45. Give examples of the usual accounts provided in the winding up of a partnership business.

46. Discuss the settlement of a loss where one of the partners is a debtor to the firm, and is insolvent.

47. X., Y., and Z. are in partnership, their respective capitals being £1500, £1200, and £800. The partnership articles provide for interest on capital at 5 per cent. per annum, and profits and losses to be divided in the proportion of X. one-half, Y. one-third, C. one-sixth. A. has lent to the firm £1000 at 6 per cent. interest, and B. £500 at the same rate. Interest on capital and loans is paid up to date. It is decided to dissolve partnership on June 30, 1905, on which date the assets of the firm were as follows:—

	£
Machinery and plant	2,000
Loose tools, patterns, etc.	1,000
Stock in trade	2,500
Sundry debtors	4,500
	£10,000

The liabilities (in addition to those to partners) were—

	£
Sundry creditors	3000
Bank creditors	2000
	£5000

The business was sold as a going concern, subject to the following allowances off the book values: machinery and plant, 10 per cent.; loose tools and patterns and stock, 20 per cent.; book debts, 15 per cent.; but also subject to the payment of £600 for goodwill.

Prepare a realization account, and show what was the result to each partner.

48. A., B., and C. were equal partners in business for several years. A. died December 31, 1903. The articles of partnership provided that on the death or retirement of any one of the partners, the goodwill should be taken into account. The balance sheet at the date of A.'s death was as follows:—

	£	s.	d.
Cash at bank	6,022	17	0
„ in hand	23	17	2
Debts due to the firm	22,022	19	0
„ „ by the firm	8,086	15	2
A., Capital Account	9,982	18	0
B. „ „	5,000	0	0
C. „ „	5,000	0	0

B. and C. arrange for D. to come into the firm and bring in as capital £10,000. The goodwill is, by agreement, to be valued at £4500, and the new firm takes over the business in equal shares, and pays out to the estate of A. the whole value of his share and interest.

Prepare from the above a balance sheet and a statement showing the amount due to A.'s estate, and draft a balance sheet of the new firm as it should appear at the commencement of its operations January 1, 1904.

CHAPTER VI

JOINT STOCK COMPANIES

Classes of Shares—Conversion of Shares into Stock—Memorandum and Articles of Association—Prospectus—Section 12, Companies Act, 1900—Company's opening entries—Statistical Books—Profit and Loss Account and Balance Sheet—Forfeited Shares—Profits prior to Incorporation.

From the last chapter we learnt somewhat of the uncertainty of arranging satisfactory partnerships, and of the responsibility and liability of partnerships; also of the difficulty and delay in withdrawing the capital invested therein. In view of these points, it is hardly to be wondered that the principle of limited liability has met with so much favour among investors of both small and large sums. The advantages of limited liability—ease of realizing his holding, that is, turning his shares into cash, statutory regulations in regard to the books of account and the conduct of business—all give confidence to the intending shareholder, who, in the careful selection of a sound undertaking, may feel reasonably sure of a fair return on his investment.

Before dealing with the accounts of a joint stock company, let us consider some of the various points of which we should have a knowledge.

Joint stock means joint capital, and the company is the association of a number of persons who contribute or engage to contribute certain proportions or shares of the capital.

Most companies are registered with limited liability, *i.e.* that the shareholder cannot be called upon to pay more than the unpaid amount on his shares: so that the holder of fifty £10 shares in such a company, on which £6 per share has been paid, has no further liability than the £200 unpaid. In some cases, as in the finding of money by a few persons, who are taking the preliminary steps for the purchase of a patent or a business with a view to selling again, the company may be

limited by guarantee, *i.e.* that each person undertakes to subscribe a certain proportion of the total sum guaranteed. It will readily be understood, that companies with unlimited liability involve so much risk, that they are not viewed with favour by investors.

A company may be registered by special Act of Parliament, *e.g.* railway, tram, and similar undertakings requiring special powers; but industrial and commercial companies are begun, carried on, and ended under the Joint Stock Companies Acts of 1862–1900.

Any firm or partnership of more than twenty members (in the case of a banking business, ten) carrying on any business for gain, must be registered under the Companies Act; and no company can consist of less than seven persons.

The capital of a joint stock company is divided into certain fractions or parts of the total sum, such division of interest and, it may be, liability, being termed shares, generally of £1 or £5 each.

Shares may be of various classes:—

Ordinary, giving no special advantage or privilege in regard to the sharing of profits or the distribution of capital in the event of winding up the company.

Preference, carrying with them a prior claim to a fixed share of the profits, say 5 or 6 per cent., and, it may be, also to capital when distributed.

Cumulative Preference, giving the shareholder the power of claiming upon future profits for any shortage in the payment of his dividend during the current period.

Preference shares carry with them this cumulative claim if the articles provide so.

Deferred, in which the claim upon the distribution of profits is waived until the ordinary and preference shareholders have received certain dividends.

Founders', which are practically deferred shares allotted to the promoters or the few who have had the trouble and expense of working some patent or speculative undertaking to a successful issue.

Guaranteed, on which a stated dividend is guaranteed to be paid for a fixed term of years (usually by the vendor of a business taken over by the company).

In further explanation of the above distinctions let us take the following instances :—

A., wishing to float his business, feels doubtful about securing the minimum subscription (the number of shares, stated in the prospectus, to be applied for to allow of an allotment). He therefore offers the following inducements to encourage investors: share capital, in £1 shares, of £100,000 divided into 40,000 6 per cent. cumulative preference shares, preference in respect of profit and capital, 40,000 ordinary shares, and 20,000 deferred shares to be allowed to him as part of the purchase money, and on which no dividend is to be payable in any of the five following years until 10 per cent. has been paid to the ordinary shareholders, the first appropriation of profits being to the preference shareholders.

As an alternative proposal, A. might have guaranteed the payment of the dividend during a limited number of years to either or both classes of shareholders, but this would be undertaking so much as to probably raise suspicions in the minds of investors, and cause them to leave the speculation severely alone, thus defeating the vendor's object in offering such favourable terms.

As an illustration of founders' shares, a fairly common form a few years ago, take the case of a patent financed by a small syndicate of ten members, who set a value of £10,000 upon the patent and their work and expenses. They ask for additional capital of £50,000, and agree to accept founders' shares for the £10,000, stipulating to defer any claim on profits until 6 per cent. has been paid on the £50,000 ordinary shares, after which the balance is to be divided equally between the two classes of shares. This appears a satisfactory arrangement until such time as a disposable balance of £10,000 appears in the Profit and Loss Account giving a return of £3500 on the founders' shares, and raising their market value to an extraordinary sum.

Conversion of Shares into Stock.—If authorized by its articles, a company may convert its fully paid shares into stock, which enables the holding to be dealt with in multiples of £1, or as may be provided by the articles of the company. As an instance, we may mention Coats, Ltd., who on the £10 shares reaching in 1898 a price of £75 sanctioned their shares being converted into stock.

The use of the term "stock" merely denotes that the

company has recognized the fact of the complete payment of the shares, and that the time has come when those shares may be assigned in fragments, which, for obvious reasons, could not be permitted before. The stock shall still be a qualification, *e.g.* of directors, who must possess a certain number of shares, and that the meetings shall be of persons entitled to this stock who meet and vote as shareholders, in the proportion of shares which would entitle them to vote before the consolidation into stock.

It may be mentioned that such stock may again be reconverted into shares.

Powers and Regulations of Company

In place of the partnership agreement which, in the last chapter, we found embodied the arrangements for carrying on the business and the contract between those sharing the profit or loss, we have the following to set forth the powers and regulations of the company.

Memorandum of Association in which the objects of the company are fully set forth, and the powers of the company defined. It must contain the following particulars:—

1. The name of the company with the addition of "Limited" as the last word of the name.
2. The situation of the registered office.
3. The objects of the company.
4. A declaration that the liability of the members is limited.
5. The amount of capital and the number and value of the shares into which it is divided.

Articles of Association.—As the affairs of the company are managed by the directors, acting for the shareholders, it is important that there should be certain regulations or working rules for the management of the company, these being given very fully in the articles of association. Small companies frequently adopt those known as Table A of the Companies Act of 1862 (revised in 1906), with or without modifications; larger companies usually adopt special articles.

The articles may be altered by a special resolution passed in a general meeting, but must not contain anything illegal or go beyond the powers of the memorandum to which the articles are subject.

The memorandum and the articles of association are signed

by seven persons called the subscribers, who are the first members of the company.

Prospectus.—After these preliminary notes upon company work, we may now proceed to deal with the floating of the business of a firm whose accounts we have audited for several years past. In consultation with the solicitors the prospectus is prepared. This, in compliance with the Companies Act of 1900, must be dated, signed by the directors, and filed with the Registrar of Joint Stock Companies, before being issued. It must include a copy of the memorandum of association, and give the names of the signatories, and among other particulars state the names, descriptions, addresses, and qualifications of the directors; the minimum subscription on which the directors propose to proceed to allotment; the particulars of shares, and consideration for shares issued as fully or partly paid, or otherwise than for cash; the names and addresses of the vendors and the particulars of the purchase money, specifying the amount for goodwill; also the disclosure of all material contracts.

The object of these regulations is to prevent intending shareholders being misled, either by misrepresentation in the prospectus or important omissions from it. The minimum subscriptions having been paid, the memorandum and articles filed with the Registrar of Joint Stock Companies, together with a statutory declaration of compliance with the requirements of the Act, and of course the payment of the requisite fees, the certificate of incorporation is granted, and the company commences business.

A further safeguard of the interests of the shareholders is provided by section 12 of the Companies Act of 1900, giving those interested an opportunity of inquiry into any matters affecting the formation of the company. Note specially that by paragraph (3) the auditors must certify as to the allotment of shares; the cash received in respect of such shares; and to the receipts and payments of the company on capital account.

SECTION 12 OF THE COMPANIES ACT, 1900
(63 & 64 Vict., Ch. 48)

12. (1) Every company limited by shares and registered after the commencement of this Act shall, within a period of

not less than one month nor more than three months from the date at which the company is entitled to commence business, hold a general meeting of the members of the company, which shall be called the statutory meeting.

(2) The directors shall, at least seven days before the day on which the meeting is held, forward to every member of the company a report, certified by not less than two directors of the company, or, where there are less than two directors, by the sole director and manager, stating—

(*a*) The total number of shares allotted, distinguishing shares allotted as fully or partly paid up otherwise than in cash, and stating in the case of shares partly paid up the extent to which they are so paid up, and in either case the consideration for which they have been allotted;

(*b*) The total amount of cash received by the company in respect of such shares distinguished as aforesaid;

(*c*) An abstract of the receipts and payments of the company on capital account to the date of the report, and an account or estimate of the preliminary expenses of the company;

(*d*) The names, addresses, and descriptions of the directors, auditors (if any), manager (if any), and secretary of company; and

(*e*) The particulars of any contract the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification.

(3) The report shall, so far as it relates to the shares allotted by the company, and to the cash received in respect of such shares, and to the receipts and payments of the company on capital account, be certified as correct by the auditors (if any) of the company.

(4) The directors shall cause a copy of the report, certified as by this section required, to be filed with the registrar forthwith after the sending thereof to the members of the company.

(5) The directors shall cause a list, showing the names, descriptions, and addresses of the members of the company, and the number of shares held by them respectively, to be produced

at the commencement of the meeting, and to remain open and accessible to any member of the company during the continuance of the meeting.

(6) The members of the company present at the meeting shall be at liberty to discuss any matter relating to the formation of the company, or arising out of the report, whether previous notice has been given or not; but no resolution of which notice has not been given in accordance with the articles of association may be passed.

(7) The meeting may adjourn from time to time, and at any such adjourned meeting any resolution of which notice has been given in accordance with the articles of association, either before or subsequently to the former meeting, may be passed, and the adjourned meeting shall have the same powers as an original meeting.

(8) If default is made in filing such report as aforesaid, or in holding the statutory meeting, then, at the expiration of fourteen days after the last day on which the meeting ought to have been held, any shareholder may petition the Court for the winding up of the company, and upon the hearing of the petition the Court may either direct that the company be wound up, or give directions for the report being filed, or a meeting being held, or make such other order as may be just, and may order that the costs of the petition be paid by any persons who in the opinion of the Court are responsible for the default.

Share Capital Entries

The company previously referred to is formed with a registered capital of £20,000, divided into 6000 6 per cent. cumulative preference shares of £1 each (preferential in regard to both dividend and capital), and 14,000 ordinary shares of £1 each; *5s.* per share is payable on application, *5s.* on allotment, and the balance by equal instalments in two and three months after allotment. The vendor is allotted 5000 ordinary shares, and paid £4000 cash for the assets and goodwill of the business. All the preference shares and 4000 of the ordinary shares are applied for and allotted. The entries regarding these transactions appear in the books as hereunder:—

		£	£
Jan. 1.	Purchase Account. Dr.	9000	
	To vendor		9000
	Purchase of sundry assets and goodwill as per schedule.		
	Bank. Dr.	2500	
	To Ordinary Share Capital Account. Cr.		1000
	„ Preference Share Capital Account .		1500
	Being 5s. per share application money 6000 preference shares 4000 ordinary „		
	Bank. Dr.	2500	
	To Ordinary Share Capital Account. Cr.		1000
	„ Preference Share Capital Account. .		1500
	Being 5s. per share on allotment 6000 preference shares 4000 ordinary „		
	Bank. Dr.	2500	
	To Ordinary Share Capital Account . .		1000
	„ Preference Share Capital Account .		1500
	Being 5s. per share—1st call on, etc.		
	Bank. Dr.	2500	
	To Ordinary Share Capital Account . .		1000
	„ Preference Share Capital Account .		1500
	Being 5s. per share—2nd call on, etc.		
	Vendor. Dr.	9000	
	To Ordinary Share Capital		5000
	„ bank		4000
	Being allotment of 5000 ordinary shares and cash payment for purchase of goodwill and assets of the business.		

Dr. PURCHASE ACCOUNT Cr.

	£		
To sundries	9000		

VENDOR

	£		£
To ordinary shares	5000	By Purchase Account	9000
„ cash	4000		

ORDINARY SHARE CAPITAL

			£
		By cash, application	1000
		„ „ allotment	1000
		„ „ 1st call	1000
		„ „ 2nd „	1000
		„ vendor	5000

Cumulative Preference Share Capital

Dr.		Cr.
		£
	By cash, application	1500
	„ „ allotment	1500
	„ „ 1st call	1500
	„ „ 2nd „	1500

Bank or Cash Account

		£	s.	d.		£	s.	d.
To applications:	Ordinary shares	1500	0	0	By vendor .	4000	0	0
„ „	Preference „	1500	0	0				
„ allotments:	Ordinary „	1000	0	0				
„ „	Preference „	1500	0	0				
„ 1st call:	Ordinary „	1000	0	0				
„ 1st „	Preference „	1500	0	0				
„ 2nd „	Ordinary „	1000	0	0				
„ 2nd „	Preference „	1500	0	0				

Another method of dealing with the opening entries is to open separate application, allotment, and call accounts which are afterwards transferred to the Share Capital Account. In this way over-applications, transfers from the application to the Allotment Account and arrears of the various payments are shown without interference with the Share Capital Account.

Example I

A company offers for subscription 250,000 shares of £1 each at a premium of 2*s.* 6*d.* per share, payable 5*s.* on application, 7*s.* 6*d.* on allotment, and the balance one month after allotment. In response to the offer, applications were received on October 1, 1905, for 300,000 shares. The company went to allotment on the following day, when applications for 10,000 shares were declined and the deposits received on application returned, applicants for 80,000 shares received only half the amount of their respective applications, and the excess of their deposits was applied towards payment of the amount due on allotment. The remainder of the applications were allotted in full.

Let us make the Journal entries for these transactions :—

JOURNAL

		Dr.	Cr.
1905		£	£
Oct. 1	Cash . . . . Dr.	75,000	
	To Application Account		75,000
	(Being applications for 300,000 at 5s. each)		
„ 2	Application Account . . . . Dr.	62,500	
	Allotment Account . . . . Dr.	93,750	
	To Share Capital Account		125,000
	„ Premium or Shares Account		31,250
	(Being allotment of 250,000 shares—5s. per share on application and 7s. 6d. per share on allotment)		
„	Application Account . . . . Dr.	2,500	
	To cash		2,500
	(Being application money returned on 10,000 shares declined)		
„	Application Account . . . . Dr.	10,000	
	To Allotment Account		10,000
	(Being amount received on application for 40,000 shares declined, but carried to reduce amount due on allotment of other shares)		
„ 5	Cash . . . . Dr.	83,750	
	To Allotment Account		83,750
	(Being balance due, and assumed to have been received)		
Nov. 2	First Call Account . . . . Dr.	125,000	
	To Share Capital Account		125,000
	(Being call due on 250,000 shares at 10s. per share)		
„ 5	Cash . . . . Dr.	125,000	
	To First Call Account		125,000
	(Being amount assumed to have been received)		

The financial books of the company will be similar to those hitherto in use and such as are kept by a private firm with a well-planned system of accounts. It is, however, compulsory upon companies to keep certain statistical books. These are—

Register of Members, or Shareholders' Register.
Register of Mortgages or Charges.
Register of Directors and Managers.
Annual List of Members and Summary Book.
Minute Book.

In addition the following subsidiary books are met with in the offices of most companies:—

Application and Allotment of Shares' Book.
Call Book.
Register of Transfers.

REGISTER OF MEMBERS AND

Name: Smith, John.

Address and occupation: 440, Austin Friars, London, E.C. Corn merchant.

Dr.	Shares acquired.									Dr.	Cash payable on shares.				
Number of allotment.	Number of transfer.	Date of allotment or entry of transfer.	Number of shares allotted or transferred.	Distinctive numbers (inclusive).		Transferor's folio, if so acquired.	Total value of shares held.			Date when called.	Description of payment or number of call.	Amount per share.	Total amount.		
		1902.		*From*	*To*		£	s.	d.	1902.		s. d.	£	s.	d.
1	—	Jan. 11	150	1	150	—	150	0	0	Jan. 3 ,, 11	Application and Allotment	5 0	37	10	0
										Mar. 10	First call	5 0	37	10	0

Dividends Book.
Seal Register.
Agenda Book.
Share Certificate Book.

Also books in relation to debentures, *vide* Chapter VII.

SHAREHOLDERS' LEDGER

Date of entry as a member: January 11, 1902.
Date of ceasing to be a member:

Cash paid on shares.					Cr.	Shares transferred.							Cr.		
Date when due.	Date of payment.	Cash-book folio.	Amount.			Number of transfer.	Date of entry of transfer.	Number of shares transferred.	Distinctive number (inclusive).		Transferee's folio.	Total value of shares transferred.		
1902.	1902.		£	s.	d.		1902.		*From*	*To*		£	s.	d.
						18	Apl. 5	100	1	100	23	100	0	0
Jan. 3	Jan. 3	1	18	15	0									
„ 11	„ 13	4	18	15	0									
Mar. 10	Mar. 15	32	37	10	0									

REGISTER OF MORTGAGES

Date of loan.	Name of mortgagee.	Address.	Description of the property charged.	Amount of loan.	Rate of interest per annum.	Amount of half-yearly interest.	Date of interest becoming due.	Remarks.
				£ s. d.		£ s. d.		

Number of Certificate } ________

"THE COMPANIES ACTS, 1862 TO 1900."

Names and Addresses of the Persons who are the Directors

OF

____

____ *Limited*,

on the __________ *day of* __________ 190 .

(Pursuant to Section 19, Sub-section 1 (*b*), of The Companies Act, 1900.)

NAMES.	ADDRESSES.

Signature ________________________

Date ______________ 190

Description ________________________

(*i.e.* Manager *or* Secretary.)

This list should be attached to the annual return, immediately after the list of members.

Number of Certificate } ———

"THE COMPANIES ACTS, 1862 TO 1900."

FORM E

As altered by the Board of Trade pursuant to Section 71 of the Companies Act, 1862.

A Companies' Fee Stamp of 5s. should be impressed here.

Summary of Capital and Shares

OF

BOOTH BROWN,

LIMITED,

made up to the Twenty Second day of October, 1906.

(Being the Fourteenth Day succeeding the 8th day of October, 1906, when the First Ordinary General Meeting in the Year was held.)

Nominal capital, £30,000 divided into * {10,000 pref. / 20,000 ord.} shares of £ * {1 / 1} each

Total number of shares taken up to the 22nd day of October, 1906 {6000 pref. / 18,460 ord.}
(Which number must agree with the total shown in the list as held by existing members) *

Number of shares issued subject to payment wholly in cash . . . 14,460

Number of shares issued as fully paid up otherwise than for cash . 10,000

Number of shares issued as partly paid up to the extent of——— per share otherwise than for cash . . . . } Nil

† There has been called up on each of 6000 preference shares . . £1

" " " 8460 ordinary " . . 15s.

" " " ——— " . . £———

‡ Total amount of calls received, including payments on application and allotment . . . . } £12,345

Total amount (if any) agreed to be considered as paid on 10,000 ordinary shares which have been issued as fully paid (otherwise than in cash) . . . . } £10,000

Total amount (if any) agreed to be considered as paid on——— shares which have been issued as partly paid up to the extent of——— per share . . . . } £———

Total amount of *calls* unpaid . . . . £ Nil

Total amount (if any) paid on § ——— shares forfeited . . . £ Nil

Total amount of debt due from the company in respect of all mortgages and charges which require registration under the Companies Act, 1900, or which would require such registration if created after the amendment of that Act . . . . } £3000

NOTE.—A list of the names and addresses of the directors must follow the list of members. Banking companies must also add a list of all their places of business.

* Where there are shares of different kinds or amounts (*e.g.* preference and ordinary, or £10 and £5), state the numbers and nominal values separately.

† Where various amounts have been called, or there are shares of different kinds, state them separately.

‡ Include what has been received on forfeited as well as on existing shares.

‖ State the aggregate number of shares forfeited (if any).

☞ **The Return must be signed, at the end, by the Manager or Secretary of the Company.**

List of persons holding shares in ______ Limited, on the ______ day of ______, 190 , and of persons who have held shares therein at any time since the date of the last return, showing their names and addresses, and an account of the shares so held.

Folio in register ledger containing particulars.	Name, addresses, and occupations.				Account of shares.					Remarks.
	Surname.	Christian name.	Address.	Occupation.	* Number of shares held by existing members at date of return.†	Particulars of shares transferred since the date of the last return by persons who are still members.‡		Particulars of shares transferred since the date of the last return by persons who have ceased to be members.‡		
						Number.†	Date of registration of transfer.	Number.†	Date of registration of transfer.	

* The aggregate number of shares held, and not the distinctive numbers, is to be stated, and the column must be added up throughout, so as to make one total to agree with that stated in the summary to have been taken up.

† When the shares are of different classes these columns may be subdivided, so that the number of each class held, or transferred, may be shown separately.

‡ The date of registration of each transfer should be given, as well as the number of shares transferred on each date. The particulars should be placed opposite the name of the transferor, and not opposite that of the transferee, but the name of the transferee may be inserted in the *remarks* column, immediately opposite the particulars of each transfer.

APPLICATION AND

Number of letter.	Applicant's name.	Residence.	Trade or profession.
10	Smith, John. . .	440, Austin Friars, London, E.C.	Cork Merchant

CALL

First call of five shillings per share, made March 10, 1902, payable

Name.	Address.	Occupation.	Share ledger folio.	Number of shares held.
Smith, John . .	440, Austin Friars, London, E.C.	Cork Merchant .	1	150

REGISTER OF

Date.	Number of transfer.	TRANSFERRORS.			
		Folio in register of members.	Name.	Address.	Occupation.
April 5	18	1	Smith, John .	440, Austin Friars, London, E.C.	Cork Merchant

ALLOTMENT BOOK

Date of application.	Date of allotment.	Number of shares applied for.	Number of shares allotted.	Folio in register of members.	Remarks.
Jan. 2, 1902.	Jan. 11, 1902.	150	150	1	

BOOK

at once, making amount paid up on each share ten shillings.

Total amount of call.			Date Paid.	Cash book folio.	Interest.				Remarks.
£	s.	d.			Days.	£	s.	d.	
37	10	0	March 15	12					

TRANSFERS

Transferees.				Number of shares transferred.	Remarks.
Name.	Address.	Occupation.	Folio in register of members.		
Brown, William .	486, Bond St. London, W.	Hatter .	23	100	

SHARE CERTIFICATE BOOK

CERTIFICATE No.

REGISTERED No.

TRADERS LIMITED

Cumulative Preference Shares

*Nos.*________*to*________

issued to

____

____

of

____

Date ____________19____

Directors' Signatures ____________________

CERTIFICATE No. REGISTERED No.______

______ *Shares.*

CUMULATIVE PREFERENCE SHARES

TRADERS LIMITED

INCORPORATED UNDER THE COMPANIES ACTS, 1862 TO 1900

CAPITAL £20,000

DIVIDED INTO 6000 6% CUMULATIVE PREFERENCE SHARES OF £1 EACH AND 14,000 ORDINARY SHARES OF £1 EACH.

The Preference Shares are entitled to a fixed Cumulative Preference Dividend of Six per cent. per annum and rank before the Ordinary Shares in RESPECT OF CAPITAL.

This is to Certify *that*________________________

*of*________________________*is the Registered Proprietor of*____________*Fully Paid Cumulative Preference Shares of £1 each Numbered*______*to*______*inclusive in TRADERS LIMITED subject to the Memorandum and Articles of Association of the said Company.*

*Given under the Common Seal of the said Company this*____________ *day of*____________19____

________________________ } *Directors.*
________________________ }

*Countersigned*____________________*Secretary.*

NOTE.—*No Transfer of the above Shares can be Registered without the production of this Certificate.*

DIVIDENDS BOOK

Name of share-holder.	Preference shares.		Ordinary shares.		Deferred shares.		Total.	Income tax deducted.	No. of warrant.	Net amount of warrant.	Date cleared.
	L. fo.	Amount.	L. fo.	Amount.	L. fo.	Amount.					

In the above case separate ledgers are kept for each class of shares. When only one ledger is kept one ledger folio column only is needed.

Example II

Let us now deal with the following exercise :—

Prepare from the following ledger balances on December 31, 1902, of William Pearson & Co., Ltd., Profit and Loss Account and Balance Sheet.

The adjustments to be made are—

A provision of 5 per cent. for bad and doubtful debts.

Depreciation of 10 per cent. on Machinery and Plant Account.

£1000 to be taken to the reserve fund.

The nominal capital consists of 50,000 shares of £1 each.

	£
Share Capital Account (issued 30,000 shares of £1 each with 10s. per share called up)	15,000
Unpaid Calls Account	150
Cash in hand	190
Sundry creditors	1,960
Sundry debtors	3,640
Cash at bank	1,150
Reserve fund	4,000
Machinery and Plant Account	6,000
Mortgage Debentures Account (45 debentures of £100 each at 5 per cent. interest)	4,500
Freehold premises	11,500
Stock (Jan. 1, 1902)	8,800
Manufacturing wages	12,450
Salaries	1,230

	£
Discount Account (amount allowed by creditors)	48
Carriage and cartage	395
Rates and taxes	111
Insurance	98
Sales	62,850
Trade expenses	382
Repairs	174
Purchases	41,800
Unpaid Dividends Account	252
Bad Debts Account	191
Office expenses	124
Interest paid on debentures	225

Stock was taken as on December 31, 1902, and was valued at £6820.

MESSRS. WM. PEARSON AND CO., LTD.

December 31*st*, 1902

Dr. TRADING, AND PROFIT AND LOSS ACCOUNTS Cr.

	£	s.	d.		£	s.	d.
To stock, Jan. 1st, 1902	8,800	0	0	By sales	62,850	0	0
„ purchases	41,800	0	0	„ stock on hand	6,820	0	0
„ wages	12,450	0	0				
„ carriage and cartage	395	0	0				
„ Profit and Loss A/c c/d	6,225	0	0				
	£69,670	0	0		£69,670	0	0
To salaries	1,230	0	0	By Trading A/c b/d	6,225	0	0
„ rents and taxes	111	0	0	„ discounts	48	0	0
„ insurance	98	0	0				
„ trade expenses	382	0	0				
„ repairs	174	0	0				
„ bad debts	191	0	0				
„ office expenses	124	0	0				
„ debenture interest (5°/$_o$) paid	225	0	0				
„ reserve bad debts—5°/$_o$ on £3640	182	0	0				
„ depreciation on plant, etc.—10°/$_o$ on £6000	600	0	0				
„ balance c/d	2,956	0	0				
	£6,273	0	0		£6,273	0	0
To reserve fund	1,000	0	0	By balance b/d	2,956	0	0
„ amount available for dividend	1,956	0	0				
	£2,956	0	0		£2,956	0	0

MESSRS. WM. PEARSON AND CO., LTD.

December 31st, 1902

BALANCE SHEET

Dr.

Liabilities.	£	s.	d.	£	s.	d.
To nominal capital, 50,000 shares of £1 each	50,000	0	0			
Share capital issued— 30,000 shares at £1	30,000	0	0			
Called up capital	15,000	0	0			
Less calls in arrear	150	0	0			
				14,850	0	0
Mortgage Debenture Account— 45 of £100 each at 5°/₀ interest per annum				4,500	0	0
Sundry creditors				1,960	0	0
Unclaimed dividends				252	0	0
Reserve fund— Jan. 1, 1902	4,000	0	0			
Dec. 31, 1902	1,000	0	0			
				5,000	0	0
Profit and Loss Account				1,956	0	0
				£28,518	0	0

Cr.

Assets.	£	s.	d.	£	s.	d.
Freehold premises				11,500	0	0
Stock in trade				6,820	0	0
Machinery and plant	6000	0	0			
Less 10°/₀ depreciation	600	0	0			
				5,400	0	0
Sundry debtors	3640	0	0			
Less reserve for bad debs	182	0	0			
				3,458	0	0
Cash at bankers	1150	0	0			
„ in hand	190	0	0			
				1,340	0	0
				£28,518	0	0

The example just given, being a first exercise on Company Accounts, is but a simple one, and therefore we must consider other items that may need setting out in a companies Profit and Loss Account and Balance Sheet.

A division of the Profit and Loss Account showing the amount disposable and the appropriation of same is furnished thus—

APPROPRIATION ACCOUNT

	£		£
To transfer to reserve	1000	By balance from last account .	1200
„ bonus to employees—5% on net profit	340	„ P. and L. Account brought down .	6800
„ 6% dividend preference shares	2400		
„ 10% „ ordinary shares	3000		
Balance, carried forward	1260		
	£8000		£8000
		By balance .	£1260

In regard to the Capital Account in the balance sheet, particulars should be set out of—

(*a*) Registered, authorized or nominal capital, as fixed by the memorandum of association, together with the number, class, and amount of each share.

(*b*) Subscribed or issued capital, being the total amount allotted to members of each class of shares.

(*c*) Called up capital, stating the amount called up on each class of share and the total.

For instance, a company registers its nominal capital, which authorized sum it must not exceed, as £100,000 in shares of £1 each; and issues 80,000 of such shares upon which 15*s*. per share is called or paid up: were the shares divided in 40,000 preference and 60,000 ordinary, the particulars of each class of shares would be given.

Calls paid in advance would be added to, and calls in arrears would be deducted from, the called-up capital, and then the balance carried out in the effective column as the total sum actually received or considered as paid.

In this way the shareholders, intending shareholders, and also the creditors of the company, may have a complete statement of the share capital. If, as in the case of a bank, there is

considerable uncalled capital, the uncalled capital may be regarded as a reserve to meet further demands upon the resources of the bank. For instance, the X. & Y. Bank, Limited, with a subscribed capital of £10,000,000, of which £2,000,000 only has been called up, has in case of requirements an eight millions sterling of resources.

We may also notice that in a partnership the net profit or loss is, as a rule, transferred to the capital accounts of the partners, whereas in a company balance sheet the profit appears as an item available for distribution as dividend to the shareholders, or to be dealt with as may be recommended by the directors and decided by the shareholders in general meeting: if a loss, the amount appears on the credit side of the balance sheet.

Forfeited Shares.—It may happen that an allotment of shares may be made to a speculator or allottee, who is unable to meet the calls upon him. In case of such default power is usually held by the directors to forfeit such shares, which may again be re-issued to some other applicant, and that too at a discount not exceeding the amount paid on the shares by previous holders.

On forfeiture we have to make certain adjustments in the accounts. Thus, suppose A. B., to whom twenty shares of £5 each have been allotted, and on which he fails to pay the last call made upon him, has his shares forfeited, our entries would be—

A. B. Dr.
To Forfeited Shares Account.
Cash paid on shares forfeited as per resolution of ____________th.
Share Capital Account. Dr.
To A. B.
Amount called up on forfeited shares, as, e.g.—

A. B. (Shareholder)

Dr. Cr.

		£	s.	d.			£	s.	d.
1904					1904				
Jan. 1	To Application and Allotment A/c	20	0	0	Jan. 1	By Cash. Application	10	0	0
Feb. 1	„ 1st Call A/c .	20	0	0		„ Allotment.	10	0	0
May 1	„ 2nd „ .	20	0	0	Feb. 5	„ 1st call	20	0	0
Dec. 1	„ 3rd „ .	40	0	0	May 5	„ 2nd call	20	0	0
1905					1905				
Dec. 31	Transfer to Forfeited Shares A/c	60	0	0	Dec. 31	Transfer to Share Capital A/c .	100	0	0
		£160	0	0			£160	0	0

Dr. FORFEITED SHARES ACCOUNT Cr.

		£	s.	d.			£	s.	d.
					1905 Dec. 31	By transfer from A.B. . . .	60	0	0

Dr. SHARE CAPITAL ACCOUNT Cr.

		£	s.	d.			£	s.	d.
1905 Dec. 31	To forfeited shares, A.B. . . .	100	0	0					

The amount standing to the credit of Forfeited Shares Account will be treated as a reserve and placed on the Dr. side of the balance sheet, subject to any discount allowed on the re-issue of the shares.

As most students experience difficulty in dealing with the entries involved in the forfeiture of shares, we give a fuller illustration in the following:—

Example III

The Weyside Company, Limited, was formed for the purpose of purchasing the old-established business of Richard Blank, and was duly registered with a nominal capital of £200,000, in 200,000 shares of £1 each. This capital was divided into 100,000 ordinary shares of £1 each, and 100,000 6 per cent. preference shares of £1 each.

The whole of the preference shares and 52,000 of the ordinary shares were offered for public subscription, payable, in both classes of shares, as follows:—

2*s.* 6*d.* per share on application.
2*s.* 6*d.* ,, ,, allotment.
5*s.* 0*d.* ,, ,, January 15, 1905 (first call).
5*s.* 0*d.* ,, ,, February 15, 1905 (second call).
The balance as and when required.

The whole of the shares offered to the public were applied for and allotted in due course.

The balance of the ordinary share capital was issued as fully paid to the vendor as part purchase price of his business.

Five hundred ordinary shares applied for by John Smith, upon which the application money only had been paid, were subsequently forfeited in accordance with the articles of association.

Let us pass the entries necessary to record the above transactions through the books of The Weyside Company, Limited, and show how they would appear in the company's Balance Sheet.

JOURNAL

1905.		£	s.	d.	£	s.	d.
Jan. 2	Sundries— Dr.						
	To Ordinary Share Capital Account				13,000	0	0
	Application Account (ord. shares)	6,500	0	0			
	Allotment Account ,,	6,500	0	0			
	(For amount due up to and including allotment of 52,000 ordinary shares.)						
,,	Sundries— Dr.						
	To Preference Share Capital Account				25,000	0	0
	Application Account (preference shares)	12,500	0	0			
	Allotment Account (preference shares)	12,500	0	0			
	(For amount due up to and including allotment of 100,000 preference shares.)						
,,	Vendor— Dr.	48,000	0	0			
	To Ordinary Share Capital Account				48,000	0	0
	(For allotment of 48,000 ordinary shares of £1 each as fully paid up in part payment of purchase money.)						
15	First Call Account (ord. shares) Dr.	13,000	0	0			
	To Ordinary Share Capital Account				13,000	0	0
	(For call of 5*s.* per share due this day on 52,000 ordinary shares.) .						
,,	First Call Account (pref. shares) Dr.	25,000	0	0			
	To Preference Share Capital Account				25,000	0	0
	(For call of 5*s.* per share due this day on 100,000 preference shares.)						
Feb. 15	Second Call Account (ord. shares) Dr.	13,000	0	0			
	To Ordinary Share Capital Account				13,000	0	0
	(For call of 5*s.* per share due this day on 52,000 ordinary shares.)						
,,	Second Call Account (pref. shares) Dr.	25,000	0	0			
	To Preference Share Capital Account				25,000	0	0
	(For call of 5*s.* per share due this day on 100,000 preference shares.)						
June 30	Ordinary Share Capital Account Dr.	375	0	0			
	To sundries—						
	Allotment Account (ord. shares).				62	10	0
	First Call Account ,, .				125	0	0
	Second Call Account ,, .				125	0	0
	Forfeited Shares Account . .				62	10	0
	(For forfeiture this day as per resolution of the Board of 500 ordinary shares, standing in the name of John Smith, on which 15*s.* per share had been called up, but only £62 10*s.* (*i.e.* 2*s.* 6*d.* per share) had been received.)						

Dr. **APPLICATION ACCOUNT (Ordinary Shares)** Cr.

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1905 Jan. 2	To Ordinary Share Capital		6,500	0	0	1905 Jan. 2	By cash . .		6,500	0	0

APPLICATION ACCOUNT (Preference Shares)

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1905 Jan. 2	To Pref. Share Cap. A/c . .		12,500	0	0	1905 Jan. 2	By cash . .		12,500	0	0

ALLOTMENT ACCOUNT (Ordinary Shares)

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1905 Jan. 2	To Ord. Share Capital . .		6,500	0	0	1905 Jan. 7	By cash . .		6,437	10	0
						June 30	„ Ord. Share Capital .		62	10	0
			£6,500	0	0				£6,500	0	0

ALLOTMENT ACCOUNT (Preference Shares)

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1905 Jan. 2	To Pref. Share Capital . .		12,500	0	0	1905 Jan. 7	By cash . .		12,500	0	0

FIRST CALL ACCOUNT (Ordinary Shares)

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1905 Jan. 15	To Ord. Share Capital . .		13,000	0	0	1905 Jan. 20	By cash . .		12,875	0	0
						June 30	„ Ord. Share Capital .		125	0	0
			£13,000	0	0				£13,000	0	0

FIRST CALL ACCOUNT (Preference Shares)

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1905 Jan. 15	To Pref. Share Capital . .		25,000	0	0	1905 Jan. 20	By cash . .		25,000	0	0

SECOND CALL ACCOUNT (Ordinary Shares)

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1905 Feb. 15	To Ord. Share Capital . .		13,000	0	0	1905 Feb. 20	By cash . .		12,875	0	0
						June 30	„ Ord. Share Capital .		125	0	0
			£13,000	0	0				£13,000	0	0

SECOND CALL ACCOUNT (Preference Shares)

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1905 Feb. 15	To Pref. Share Capital . .		25,000	0	0	1905 Feb. 20	By cash . .		25,000	0	0

Dr. **ORDINARY SHARE CAPITAL ACCOUNT** Cr.

		£	s.	d.			£	s.	d.
1905					1905				
June 30	To sundries .	375	0	0	Jan. 2	By sundries .	13,000	0	0
	„ balance c/d	86,625	0	0	„ 2	„ vendor .	48,000	0	0
					„ 15	„ First Call A/c (Ord.)	13,000	0	0
					Feb. 15	„ Second Call A/c (Ord.)	13,000	0	0
		£87,000	0	0			87,000	0	0
					June 30	„ balance b/d	£86,625	0	0

PREFERENCE SHARE CAPITAL ACCOUNT

					1905				
					Jan. 2	By sundries .	25,000	0	0
					„ 15	„ First Call A/c (Pref.)	25,000	0	0
					Feb. 15	„ Second Call A/c (Pref.)	25,000	0	0
							£75,000	0	0

VENDOR

1905									
Jan. 2	To Ord. Share Capital . .	48,000	0	0					

FORFEITED SHARES ACCOUNT

					1905				
					June 30	By Ord. Share Capital . .	62	10	

CASH BOOK

1905									
Jan. 2	To Applic. A/c (Ord. shares)	6,500	0	0					
„ 2	„ Applic. A/c (Pref. shares)	12,500	0	0					
„ 7	„ Allot. A/c . (Ord. shares)	6,437	10	0					
„ 7	„ Allot. A/c . (Pref. shares)	12,500	0	0					
„ 20	„ First Call A/c (Ord. shares)	12,875	0	0					
„ 20	„ First Call A/c (Pref. shares)	25,000	0	0					
Feb. 20	„ Sec. Call A/c (Ord. shares)	12,875	0	0					
„ 20	„ Sec. Call A/c (Pref. shares)	25,000	0	0					
		£113,687	10	0					

THE WEYSIDE CO., LTD.

BALANCE SHEET, JUNE 30, 1905

Dr. | Cr.

CAPITAL AND LIABILITIES	£	s.	d.	£	s.	d.	PROPERTY AND ASSETS	£	s.	d.	£	s.	d.
Nominal Capital, £200,000 in 100,000 6% preference shares of £1 each . .	100,000	0	0				Vendors' Account . . .				48,000	0	0
and 100,000 ordinary shares of £1 each . .	100,000	0	0				Bank				113,687	10	0
	200,000	0	0										
Subscribed Capital—													
100,000 6% *preference* shares of £1 each, 15*s*. paid	75,000	0	0										
48,000 *ordinary* shares of £1 each, issued to vendors as fully paid . .	48,000	0	0										
52,000 *ordinary* shares of £1 each, 15*s*. paid (public issue)	38,625	0	0	161,625	0	0							
Forfeited Shares Account .				62	10	0							
				£161,687	10	0					£161,687	10	0

Profits prior to Incorporation.—A matter frequently requiring to be dealt with in the purchase of a concern by a company, is the question of profit earned prior to its incorporation. For instance, a company begins business on April 1, but the agreement of purchase with the vendors includes profits made from January 1. At the end of the year, assuming the profit for the twelve months to be £3000, part of this doubtless belongs to the period, January 1 to March 31. These three months' profits must not be distributed as dividend, as it has not been made by the company, it is really part of the purchase. We must first ascertain the amount—not necessarily a fourth of the year's profits, but to be computed on the turnover or trade of the business, so that if the year's trade amounted to £30,000, on which the Profit and Loss Account shows a 10 per cent. profit, and the turnover for the first three months is £10,000, £1000 would be taken as the profit made prior to the company taking the business. As to the disposal of this £1000, there are varying methods. It may be a reduction from the goodwill, or may be utilized to write down preliminary expenses; generally, however, it is placed to the credit of a Reserve Account; but remember, that as such sum does not form part of the company's trading profits, it must not be distributed to the shareholders as dividend.

Example IV

The North London Engineering Company, Limited, was registered on January 1, 1903, with a nominal capital of £100,000, in ordinary shares of £1 each. It had power to issue £15,000 mortgage debentures of £100 each, bearing interest of 4 per cent. per annum. It took over on that date an existing engineering business and commenced manufacturing. Stock was taken and the books balanced, and accounts prepared annually; and at the close of 1904 stock was taken and valued at £14,250. The following adjustments were necessary before closing the accounts:

(*a*) Depreciation to be written off plant and machinery at the rate of 10 per cent., and off Patents Account at 20 per cent.

(*b*) The half-year's debenture interest due on December 31 to be passed through the books.

(*c*) A 5 per cent. provision for bad and doubtful debts to be made.

Make such adjustments and prepare a Trading Account, a Profit and Loss Account, and a balance sheet from the following balances (December 31, 1904), after carrying £1500 profit to the Reserve Account:—

Ledger Balances (December 31, 1904)

	£
Share Capital Account (60,000 shares of £1 each issued and 10s. per share called up)	30,000
Unpaid Calls Account	300
Patents Account	900
Cash in hand	320
Sundry creditors	4,095
Sundry debtors	7,240
Reserve Account	8,500
Machinery and Plant Account	12,480
Mortgage Debenture "	9,000
Freehold Buildings " (January 1, 1904)	24,000
Stock Account (January 1, 1904)	17,200
Manufacturing wages	22,100
Salaries Account	2,400
Carriage "	560
Rates, Taxes, and Insurance Account	252
Sales Account	121,580
Trade Expenses Account	721
Repairs Account	240
Rents Receivable Account	374
Purchases Account	84,604
Unpaid Dividends Account	58
Mortgage Debenture Interest Account	180
Provision for auditors' fees	75
Bad Debts Account	578
Interest payable and bank charges	138
Additions to buildings during the year	3,840
Holdfast Bank, Limited (overdraft)	4,200
Bad Debt Reserve Account, January 1, 1904	321

TRADING ACCOUNT

Dr. Cr.

Dr.	£	s.	d.	Cr.	£	s.	d.
To stock at January 1, 1904	17,200	0	0	By sales	121,580	0	0
" purchases	84,604	0	0	" stock on hand	14,250	0	0
" manufacturing wages	22,100	0	0				
" carriage (taken as inward)	560	0	0				
" gross profit c/d	11,366	0	0				
	£135,830	0	0		£135,830	0	0

PROFIT AND LOSS ACCOUNT

Dr.	£	s.	d.		£	s.	d. Cr.
To salaries . . .	2,400	0	0	By gross profit brought down .	11,366	0	0
" rates, taxes, and insurance . .	252	0	0	" Rents Receivable Account. . .	374	0	0
" trade expenses .	721	0	0				
" repairs . . .	240	0	0				
" mortgage debenture interest .	180	0	0				
" mortgage debenture interest accrued due . .	180	0	0				
" provision for auditors' fees . .	75	0	0				
" bad debts . . .	578	0	0				
" interest and bank charges . . .	138	0	0				
" reserve for bad debts — 5 % £7240 . £362 less amount at Jan. 1 . £321	41	0	0				
" depreciation of machinery— 10% £12,480 .	1,248	0	0				
" patents written down — 20 % £900. . . .	180	0	0				
" balance to App. A/c	5,507	0	0				
	£11,740	0	0		£11,740	0	0

APPROPRIATION ACCOUNT

	£	s.	d.		£	s.	d.
To transfer to Reserve Account. . .	1500	0	0	By balance from Profit and Loss Account	5507	0	0
" balance . . .	4007	0	0				
	£5507	0	0				
				By balance . . .	4007	0	0

THE NORTH LONDON ENGINEERING COMPANY, LIMITED

BALANCE SHEET

As at December 31, 1904

Dr. — Cr.

Liabilities.	£	s.	d.	£	s.	d.
To nominal capital, 100,000 ordinary shares of £1 each	100,000	0	0			
Issued capital, 60,000 ordinary shares of £1 each, 10/- called up	30,000	0	0			
less calls in arrear	300	0	0			
				29,700	0	0
Authorized issue of 1500 mortgage debentures of £100 each at 4%	15,000	0	0			
900 mortgage debentures of £100 each				9,000	0	0
Interest on above, accrued due				180	0	0
Unpaid dividends				58	0	0
Holdfast Bank				4,200	0	0
Sundry creditors				4,095	0	0
Reserve Account	8,500	0	0			
Added this year	1,500	0	0			
				10,000	0	0
Balance of Profit and Loss Account, amount available for dividend				4,007	0	0
				£61,240	0	0

Assets.	£	s.	d.	£	s.	d.
By freehold buildings	24,000	0	0			
„ additions during year	3,840	0	0			
				27,840	0	0
„ machinery and plant	12,480	0	0			
„ depreciation 10%	1,248	0	0			
				11,232	0	0
„ sundry debtors	7,240	0	0			
less reserve for bad and doubtful debts, 5%	362	0	0			
				6,878	0	0
„ patents	900	0	0			
less amount written down	180	0	0			
				720	0	0
Cash in hand				320	0	0
Stock on hand				14,250	0	0
				£61,240	0	0

QUESTIONS AND EXERCISES

49. Name the different classes of shares, and distinguish between each class.

50. What is meant by the conversion of shares into stock?

51. What is the memorandum of association of a company? What particulars must it contain?

52. What are the articles of association of a company? How may they be altered or added to?

53. What is the business of the statutory meeting of the Companies Act, 1900?

54. What are the statutory books required to be kept by a company? Briefly explain their uses.

55. Set out fully the particulars in regard to share capital that may be given in a company balance sheet.

56. How would you deal in the accounts with forfeiture of shares?

57. In pursuance of a resolution passed by the directors of the A. B. Company, Ltd., on April 30, 1906, 10,000 shares of £1 each were allotted to sundry persons, payable as follows:—

2s. 6d. per share on application.
5s. „ „ allotment.
5s. first call, June 30.
7s. 6d. second and final call, due August 31.

Assuming all these to have been received by the company, show the entries required to be made by the secretary in the books.

58. After the books of a company have been closed for the year, there are balances on the following accounts:—

Reserve Account.
Calls paid in advance.
Insurance premiums paid in advance.
Profit and Loss Account.

State whether they should be debit or credit balances.

CHAPTER VII

JOINT STOCK COMPANIES—continued

Borrowing of Money—Classes of Debentures—Debenture Stock—Examples of Debenture Issues—Forms of Debenture and Stock Certificate—Forms of Books dealing with Debentures—Entries for Issue of Debenture Stock—Treatment in the Accounts of Expenses of Issue—Issue at a Discount—Debentures to Bankers—Redemption of Debentures—Reduction of Capital with Examples.

Debenture and Debenture Stock

A joint stock company usually includes in its memorandum power to borrow money and to charge its assets and resources for the repayment of principal and interest. The following clause is included in the memorandum of A. Company, Ltd.: "To raise, or borrow, or secure the payment of money, in such manner and on such terms as may seem expedient, and in particular by the issue of debentures or debenture stock, whether perpetual or otherwise, and charged or not charged upon the whole or any part of the property of the company, both present and future, including its uncalled capital."

Although the security given by a company may be in various forms, as, for instance, a mortgage of certain parts of its property: an equitable mortgage, as in the deposit of title deeds to a banker; the security usually takes the form of debentures.

Debentures acknowledge or create an indebtedness, and are usually securities given by a company under seal to cover the repayment of principal and interest to the debenture holders.

The debentures may be—

(*a*) Simple or naked debentures containing no charge against the company's assets, the holders being in the position of ordinary creditors.

(*b*) Containing a floating charge, which means an equitable security upon the assets of the company.

(*c*) Mortgage debentures charging the property of the company; usually secured by a trust deed which invests the trustees for the debenture holders with important powers should necessity arise.

Debentures are usually payable to the registered holder but may also be payable to bearer, in which case they are negotiable. It is important to note that the Companies Act, 1900, requires the registration of debentures within twenty-one days of the creation of the mortgage or charge.

As the terms "debenture" and "debenture stock" are frequently used in an uncertain fashion, a word of explanation is needed. The former is a document given by the company under seal as acknowledgment or security to the debenture holder; whereas debenture stock is a term applied to the liability or debt itself. The term "debenture stock" is more properly used to describe loan capital, generally secured by a trust deed mortgaging the property and assets of the company to individual trustees, or to a debenture corporation for the benefit of the stock holders. Whilst debentures are only transferable, similar to shares, in the amounts of the debentures; debenture stock may be dealt with in fractions of stock, in amounts as small as £1.

It may be said that in issuing perpetual debenture stock the liability of the company is more that of an undertaking to pay an annuity rather than as a liability to repay a loan. For instance, the purchaser or holder of a £1000 4 per cent. debenture stock expects to receive from the company an income of £40 per annum, and yet have power to transfer his holding.

The shareholder is only entitled to dividend from profits; and in the event of a winding-up to a return of capital after the settlement of liabilities; and may even be called upon to find uncalled capital to satisfy the claims of debenture holders. The debenture holder claims his interest quite irrespective of profits being made, and should default be made in payment of such interest or other events happen, as set forth in the debentures, may enter into possession of the security, and probably have priority of claim on the entire property and assets of the company; not only over the shareholders, but over

the ordinary creditors. In fact, cases often occur where the entire assets are taken over for the benefit of debenture holders, and shareholders and creditors left with nothing.

The following are instances of debenture issues; in each case prospectuses were sent to likely investors, applications received and allotments made, as in the case of dealing with share capital. The advantageous position of the debenture or stock holders in regard to the security for the payment of principal and interest, as compared with that of the shareholder for his profits and holding, will readily be appreciated from a study of the particulars given.

We would point out that each issue varies in its terms; these and the rate of interest depending very largely on the standing of the company, the character of its operations, and the security offered, as well as upon the state of the money market at the time of issue.

Whilst the first three are issued at par, No. 4 is at a premium of £2 per cent., and No. 5 at a discount of £5 per cent.

1. £25,000 4½ per cent. debentures in sums of £100 each; redeemable at par on January 1, 1915; interest paid half-yearly on January 1 and July 1, secured by a floating charge upon the whole of the company's assets. The instalments of the debenture payable £10 on application, £15 on allotment, £25 in three months after allotment, and £50 in six months after allotment.

2. £120,000 4½ per cent. debenture stock redeemable on July 1, 1925, at £105; the stock when fully paid to be transferable in multiples of £1; secured by a specific mortgage to trustees upon landed properties and by a floating charge upon all the other assets of the company, but not including its uncalled capital for the time being.

3. £200,000 4 per cent. debenture stock, redeemable at £105 during twelve years by annual drawings, guaranteed as to principal and interest and premium by Messrs. Security & Co., Ltd.

4. £500,000 4 per cent. first mortgage redeemable debenture stock at £102, secured by a first mortgage in favour of the Debenture Corporation, Limited, as trustees, of all the lands, buildings and premises of the company, and in addition thereto by a floating charge.

5. Issue of 1000 £100 4½ per cent. debentures at £95 repayable on January 1, 1915, secured by a charge on the whole of the undertaking, including uncalled capital.

The following is the form of debenture as in Case 1:—

DEBENTURE BOND FOR ONE HUNDRED POUNDS

No.______

Issued under the authority of the Articles of Association, and pursuant to a resolution passed by the Directors of the said Company on the 18th day of December, 1905, to issue Debentures to the nominal amount of £25,000.

WHEREAS

of

has advanced to the said Company the sum of One Hundred Pounds sterling, on condition that the said Company will repay the same to him, his executors, administrators, or assigns, at the time hereafter mentioned, with interest thereon in the meantime at the rate of £4 10*s*. per centum, per annum, by equal half-yearly payments on the 30th day of June, and the 31st day of December in each year:—

NOW THESE PRESENTS WITNESS that in consideration of the sum of One Hundred Pounds sterling paid to the said Company by the said the said Company hereby binds itself, its successors, and assigns, to pay to the said his executors, administrators, or assigns, the principal sum of One Hundred Pounds on the 31st day of December, 1915, and also to pay interest thereon in the meantime, at the rate of £4 10*s*., per centum per annum, half-yearly on the 30th day of June, and the 31st day of December in each year, until payment of the said principal sum, and for the due payment of the said principal sum, and the interest thereon, the said Company hereby charges its undertaking and all its property receipts and revenues whatsoever and wheresoever, both present and future during the subsistence of this Debenture, provided always that the said Company makes default for a period of six calendar months in the payment of any interest hereby secured, then the

principal sum hereby secured shall thereupon become payable on demand to the said his executors, administrators, or assigns.

AND the said Company hereby declares that the whole of the said Debenture Loan, or such part thereof as may be issued, and the interest thereon, shall be and remain a first charge on the undertaking and property of the said Company, and the receipts and revenues aforesaid, and that the holders of the said Debenture Loan or such part thereof as may be issued, shall be entitled as between themselves and the said Company, and also as among themselves *pari passu*, and without any priority or preference one over another.

IN WITNESS whereof we, the undersigned, being two of the directors of the said Company, on behalf of and for the said Company, have to this Debenture set our hands and seals, the seal of the said Company being also affixed, and the same being countersigned by the secretary of the said Company, on the day of 1906.

____________________ } *Directors.*
____________________ }

____________________ *Secretary.*

Hereunder is also an example of stock certificate held by stockholders, as in Case 4.

Stock Certificate No.	Amount of Stock.
Deb. 4500 "A."	£100.

THE BLANK COMPANY, LIMITED

SHARE CAPITAL, £750,000

In 250,000 6 per cent. Cumulative Preference Shares of £1 each, and 500,000 Ordinary Shares of £1 each.

ISSUE OF £500,000 "A" DEBENTURE STOCK.

Bearing interest at the rate of 4 per cent. per annum, payable 1st January and 1st July.

Issued under authority of Articles Nos. 55 and 56 of the Articles of Association, and a resolution of the Directors passed the 1st day of October, 1903.

THIS IS TO CERTIFY that Alfred Nixon, Esq., F.C.A., of 31, Victoria Buildings, Manchester, is the Registered Holder of £100, One Hundred Pounds, of the above "A" Debenture Stock, which stock is constituted and secured by trust deed dated the twenty-fifth September, 1904, and made between the BLANK COMPANY, LIMITED, of the one part and the Debenture Corporation of the other part, and is issued to and with the benefit of the provisions contained in that deed.

Given under the Common Seal of the Company this Twelfth day of September, 1905.

____________________ *Director.*

____________________ *Secretary.*

N.B.—The Company will not register a transfer of any stock without the production of the certificate relating to such stock, which certificate must be surrendered before any transfer, whether of the whole or any portion thereof (being a multiple of £1), can be registered, or a new certificate can be issued in exchange.

Forms of Books and Entries of Issue.

Having now acquired a knowledge of the leading points in regard to these securities, upon which an enormous loan capital is raised by companies, let us turn to the entries dealing with the issue. We find that they correspond with those made in regard to the allotment and calls of Share Capital Account, given on p. 78.

We should also keep the following books :—

1. Numerical list of issue of debentures, giving in consecutive order the particulars of debentures issued.
2. Debenture Ledger for each debenture-holder, showing particulars of the holding, of interest due and paid.
3. Register of debenture stock, giving—
   (*a*) The names, addresses, and descriptions of the holders for the time being of the stock.
   (*b*) The amount of stock held by every such person.
   (*c*) The date at which the name of every such person was entered in respect of the stock standing in his name and every part thereof.
4. Transfer Debenture Register.

NUMERICAL LIST OF ISSUE OF DEBENTURES

Date of issue.	No. of bond.	Amount.	Rate of interest.	Interest payable in each year.		Folio in debenture ledger.	Date repayable.	To whom issued.

Charges and mortgages will be entered in the Register of Mortgages and Charges, as mentioned on p. 74.

In the balance sheet the full particulars of the debentures in regard to the authorized amount, the number issued, and the rate of interest will appear on the liabilities' side of the balance sheet.

The treatment in the accounts of debenture issues is of the first importance, and therefore must be our next concern.

Example I

A company issues £30,000 4 per cent. debenture stock, £20,000 of which is issued to the vendors in part payment of purchase money. Of the issue to the public—

10	per cent.	is payable on	application.
40	,,	,,	allotment.
25	,,	,,	first call.
25	,,	,,	second call.

The cash and journal entries would be as follows:—

Journal

	£	£
Vendors. Dr.	20,000	
To debenture stock		20,000
Application and Allotment Account. Dr. . .	5,000	
To debenture stock		5,000
First Instalment Account. Dr.	2,500	
To debenture stock		2,500
Second Instalment Account. Dr.	2,500	
To debenture stock		2,500

Cash Book

	£
To Application and Allotment Account—debenture stock .	5000
,, First Call Account, debentures	2500
,, Second ,, ,, ...	2500

DEBENTURE LEDGER

Date________________

Address__________________________

Dr. Name________________________ Cr.

Date.	Description.	C. B. fo.	Interest.			Principal.			Date.	Description.	C. B. fo.	Interest.			Principal.		
			£	s.	d.	£	s.	d.				£	s.	d.	£	s.	d.

DEBENTURE APPLICATION BOOK

No. of application.	Date.	Name, address, and occupation.	Number applied for.	Number alloted.	Application money received.	Application and allotment money due.	Date received.	Further amount due.	Date received.	Distinctive numbers.

REGISTER OF DEBENTURE HOLDERS

Date of registration.	Debentures transferred or redeemed.							Debentures acquired.									Balance of debenture held.		
	No. of transfer.	To whom transferred.	Folio.	Cert. No.	Amount.			Date of allotment or transfer.	No. of transfer.	From whom transferred.	Folio.	Cert. No.	Amount.						
					£	s.	d.						£	s.	d.		£	s.	d.

TRANSFER DEBENTURE REGISTER

Cons. No.	Registration No.	Date.	Folio in register.	Transferor.			Transferee.			Folio in register.	Amount transferred.			By whom transfer left.	Fee paid.
				Name.	Address.	Occupation.	Name.	Address.	Occupation.		£	s.	d.		

Expenses of Issue.—As many issues are underwritten—that is, debenture trust companies or firms guarantee the whole or part of the issue for a consideration—brokerage is paid for securing subscriptions, and as usually there is a heavy cost for printing and advertising, the expenses amount to a considerable sum. This is apportioned over a period of years, and in Case 1, where the debentures are repayable in ten years, each year's revenue account might well be charged with one-tenth of the cost of issue. The balance sheet will show the adjusted amount on the credit side as expenses of debenture issue.

Issue at a Discount.—In Example 5, where for each £100 debenture only £95 cash is received, the discount of £5 per cent. would be considered as an expense of issue, and would be treated as just described. In this case the £5000 would have to be provided at the end of ten years, which might be done by charging revenue with £500 per annum, and reducing Expense of Issue Account each year by that amount.

An important point is the statement in the balance sheet of the liability on the debentures. This liability is £100,000, and should be so stated on the debit side of the balance sheet; whilst the £5000, or the balance to charge to revenue, should be included on the credit side as expenses of issue. This we consider preferable to the statement amongst the liabilities of £95,000, even though a note be made that the debentures are repayable at £100,000; the note is easily omitted, and the full liability would not then be disclosed.

Debentures to Bankers.—As security for overdrafts and advances made to a limited company, bankers frequently secure themselves by holding debentures of such company. In such cases the fact of the bank having been given debentures in this way should be stated on the liabilities side of the balance sheet, the bank overdraft or liability being shown, and a note made of the debentures held as security.

Redemption of Debentures.—Referring to the issues of debentures given on p. 98, we notice that the repayment of No. 3 is by annual drawings and others at a fixed date. At the expiration of the period renewal may be effected, or a new issue of debentures offered to the public to redeem those due. Lest difficulties should arise in obtaining the necessary funds from a new debenture issue or from additional share capital, to discharge

at the end of the period the liability of the debenture-holders, the company may decide to create a fund for the repayment of the debentures. This would probably mean repayment out of revenue, either by an equal annual proportion of profits, or in such amounts as the available balance of revenue account allowed. Such amounts may take the form of a sinking fund, or be invested in good outside securities, as in the example given below.

Another method of preparing to discharge the liability would be to take out a policy with a first-class insurance company for the repayment of the sum at the stated time, and charge revenue account with the annual premiums during the term. Some provision might also be made during the time from the sale of capital assets not required by the company.

The entries in the books for the Debenture Redemption Account would be similar to those for a General Reserve or Reserve Fund; thus—

Profit and Loss Account. Dr.
To Debenture Redemption Fund Account.

Should the debentures be repaid by annual drawings at a premium, our entries would be

	£	£
Debenture Account. Dr.	10,000	
To Debentures Redemption Account . . .		10,000
Being redemption of 100 debentures of £100 each, as per resolution of board, dated		
Reserve for redemption of debentures. Dr. .	500	
To Debentures Redemption Account . . .		500
Being premium payable on redemption of 100 debentures of £100 each at £105		
Debentures Redemption Account	10,500	
To cash		10,500

Entries will be made in the Transfer Register, and also in the Debenture Holders' Account.

Reduction of Capital.—One of the reproaches levelled against joint stock company enterprise is that many large companies have been over-capitalized, and thus, when bad times came or heavy loss took place, the members of such companies received little or no dividend, and were only able to sell their shares at a heavy loss. Although not contemplated by the Companies Act of 1862, subsequent Acts gave power for a reduction of

capital to be carried out if provided for in the memorandum and articles of association.

Should the rights of creditors be affected by the reduction, the sanction of the Court must be obtained; as also in (*a*) writing off lost capital, (*b*) reducing the liability of members for uncalled capital, (*c*) paying off capital out of capital, with the proviso that it may be called up again.

The reduction should be an all-round one, *i.e.* the reduction should be in respect of each share, ordinary and preference unless the regulations give the latter class a preference in regard to capital. In most cases the words "and reduced" must be added for a certain period, depending upon the circumstances, to the company's name.

Example II

The following is the Balance Sheet of The Blank Company, Limited, as on December 31, 1902:—

Balance Sheet

	£	£		£
To Capital.			By Patents Account at cost.	114,663
Nominal:—			„ Leasehold Works Account	3,820
100,000 preference shares of £1 each	100,000		„ Machinery and Plant Account	4,120
100,000 ordinary shares at £1 each	100,000		„ sundry debtors	1,241
	£200,000		„ stock on hand	4,921
Issued:—			„ Advertising Suspense Account	2,000
74,720 preference shares of £1 each fully paid	74,720		„ Preliminary Expenses Account	406
42,633 ordinary shares of £1 each fully paid	42,633		„ Profit and Loss Account	1,482
		117,353	„ cash in hand	28
„ sundry creditors		14,000		
„ bank overdraft		1,328		
		£132,681		£132,681

The company proved unsuccessful, and resolutions were passed to carry out the following scheme of reconstruction (see p. 110):—

BALANCE SHEET OF THE BLANK COMPANY, LTD., AND REDUCED

December 31st, 1902

Dr.

Capital and Liabilities.	£	s.	d.	£	s.	d.
To capital—						
Nominal.						
100,000 preference shares of £1 each	100,000	0	0			
100,000 ordinary shares of £1 each	100,000	0	0			
	200,000	0	0			
Issued.						
74,720 preference shares of £1 each, fully paid	74,720	0	0			
42,633 ordinary shares of £1 each, fully paid	42,633	0	0			
	117,353	0	0			
Reduced.						
74,720 preference shares of £1 each, fully paid, reduced to 10*s.* each	37,360	0	0			
42,633 ordinary shares of £1 each, fully paid, reduced to 6*s.* 8*d.* each	14,211	0	0			
				51,571	0	0
To sundry creditors				14,000	0	0
„ bank overdraft				1,328	0	0
				£66,899	0	0

Cr.

Property and Assets.	£	s.	d.	£	s.	d.
By Leasehold Stocks Account .	3,820	0	0			
Less amount written down .	1,200	0	0			
				2,620	0	0
„ Machinery and Plant Account	4,120	0	0			
Less 20% written down . .	824	0	0			
				3,296	0	0
„ Patents Account, cost . .	114,663	0	0			
Less written down . . .	58,470	0	0			
				56,193	0	0
„ stock on hand.	4,921	0	0			
Less written down . . .	1,400	0	0			
				3,521	0	0
„ sundry debtors				1,241	0	0
„ cash in hand				28	0	0
„ Preliminary Suspense Account	406	0	0			
Written off	406	0	0			
„ Advertising Expenses Account	2,000	0	0			
Written off	2,000	0	0			
„ Profit and Loss Account. .	1,482	0	0			
Written off	1,482	0	0			
				£66,899	0	0

BROWN, DEAN & CO., LIMITED

Balance Sheet, December 31, 1905

Dr. | Cr.

Liabilities.	£	s.	d.	£	s.	d.
Authorized capital—						
50,000 5% cumulative preference shares of £1 each . .	50,000	0	0			
57,425 ordinary shares of £1 each (reduced from 75,000 ordinary shares of £1 each March 10, 1905)	57,425	0	0			
	107,425	0	0			
Subscribed capital—						
50,000 5% cumulative preference shares of £1 each, fully paid	50,000	0	0			
57,425 ordinary shares of £1 each, fully paid	57,425	0	0	107,425	0	0
4% first mortgage debenture stock				50,000	0	0
5% second mortgage debentures—(Authorized issue, £50,000 deposited as security for bank overdraft and other loans, as shown below)						
Sundry creditors.				13,059	12	11
Bills payable.				12,383	17	4
Provision for sundry charges .				2,022	10	0
Debenture redemption fund .				4,000	0	0
Reserve fund, amount at December 31, 1904	2,500	0	0			
Add surplus in respect of reserves made in previous years to meet contingencies no longer necessary . .	1,675	10	5	4,175	10	5
Bank balance, secured by deposit of second mortgage debentures				28,289	19	9
Loans to company, partly secured by deposit of second mortgage debentures				17,550	0	0
Profit and Loss Account, balance				3,654	12	4
				£242,561	2	9

Assets.	£	s.	d.	£	s.	d.
Property of the company in land, buildings, plant, patents, goodwill, etc., December 31, 1904	107,340	11	0			
Additions during year 1905 .	1,800	15	7			
	109,141	6	7			
Less depreciation . . .	3,081	3	6			
				106,060	3	1
Sundry debtors.				65,089	19	11
Bills receivable.				515	0	0
Sundry amounts paid in advance				842	17	2
Investments.				24,745	14	11
Stock-in-trade	34,909	17	1			
Contracts	10,036	3	8			
				44,946	0	9
Cash in hand				361	6	11
				£242,561	2	9

1. That the £1 preference shares be reduced to an equal number of fully paid shares of 10*s*. each.

2. That the £1 ordinary shares be reduced to an equal number of fully paid shares of 6*s*. 8*d*. each.

3. That the amount thus rendered available for the reduction of the assets be apportioned as follows:—

The Preliminary Expenses Account, Profit and Loss Account, and Advertising Suspense Account to be written off entirely.

£1200 to be written off the Leasehold Works Account.

£1400 to be written off the Stock Account.

20 per cent. depreciation to be written off the Machinery and Plant Account, and the balance available to be written off the Patents Account. Prepare a balance sheet giving effect to these proposals.

See Balance Sheet on p. 108.

Example III

Notice also in the following illustration of a reduction of capital the following points:—

1. A reduction of ordinary share capital, in which the vendor has accepted the reduction of the nominal amount of the shares allotted to him for the purchase of the business.

2. An issue of second mortgage debentures, issued as security to the bankers and their creditors.

3. Debenture Redemption Fund, included in the investments of the contra side.

4. A Reserve Fund increased by transfer of balances from previous accounts.

See Balance Sheet on p. 109.

QUESTIONS AND EXERCISES

59. Give a definition of debentures.

60. Describe the various classes of debentures.

61. Distinguish between debentures and debenture stock.

62. Explain the meaning of issuing debentures at a discount; at a premium; redeemable at par; redeemable at a premium.

63. Give a list of the books usually used to record debenture transactions.

64. Give an instance of the treatment in the accounts of expenses of issue of debentures.

65. Debentures are issued to bankers as security for an overdraft. How would you state this in the balance sheet?

66. Discuss methods of dealing with the redemption of debentures.

67. Give instances of the reasons for the reduction of a company's capital.

68. The directors of a company issue debentures at a discount. Describe the entries necessary to record the transactions in the books, and state how the items would appear in the balance sheet, assuming the debentures to be repayable in fifteen years.

69. A limited company offered for subscription 10,000 debentures of £10 each, bearing interest at 4½ per cent., and received application—

1903,	January	18,	from	A. for	100	debentures.
"	"	20	"	B. "	500	"
"	"	"	"	C. "	1000	"
"	"	21	"	D. "	10	"

and other applications which brought up the total to 12,500 debentures. Ten per cent. of the amount was payable on application, 40 per cent. on allotment, and 50 per cent. three months after allotment. On February 1, 1903, 80 per cent. of the sum applied for was allotted to each applicant. Rule a form of application and allotment book, and enter therein the particulars in respect of the four cases mentioned above.

70. A private firm sells its business to a company. It has assets—

	£
Land and buildings	20,000
Plant and machinery	35,000
Stock	10,000
Book debts	5,000
And it owes	3,000

The company takes over all the assets and liabilities and pays the firm £90,000 in 2,000 ordinary shares of £5 each, fully paid, 2,000 5 per cent. preference shares of £5 each fully paid, and 20,000 4 per cent. debenture stock, at par, and the balance in cash.

The company's capital is £100,000, consisting of 80,000 ordinary shares of £5 each, 6000 5 per cent. preference shares of £5 each, and 30,000 4 per cent. debenture stock, all of which are issued—the preference shares at a premium of 10s. per share payable on allotment, 10s. a share in respect of both classes of shares is to be paid on application, £2 (in case of preference shares £2 10s.) on allotment, £1 10s. on first call, and £1 on final call, while the debentures are to be paid for:—

10	per cent.	on	application.
40	"	"	allotment.
25	"	"	first call.
25	"	"	final call.

Make the cash and journal entries in the company's books.

CHAPTER VIII

PROVISION AND RESERVE ACCOUNTS

Secret Reserves—Sinking Funds—Calculation of Annual Instalments—Depreciation Fund—Renewal Fund—Suspense Account—Insurance Fund—Premiums on Shares—Reserve Capital.

In the preparation of a balance sheet, we find that in order to give a true record of the affairs of the firm it is necessary to give careful consideration to each item, whether liability or asset, to satisfy ourselves that the amount we enter is not merely figures from the books, but a statement of facts. It is here that the accountant, with his experience and critical faculty, is able to render valuable service in ascertaining, from an impartial point of view, whether all revenue charges have been included, all liabilities taken into account, and such provisions and reserves made as a prudent business man or director of a company ought to make.

Provision for Charges

In previous examples we have seen the necessity of making a provision for bad and doubtful debts and for discounts on outstanding balances. Provision is also made for various charges, such as commissions, wages, rent, and taxes, legal expenses or disputed claims. Each of these provisions would be charged against the profit of the current period. In the balance sheet the provisions on the book debts would be deducted from the Dr. balances on the Cr. side, and the provision for outstanding charges would appear on the liability side. Frequently these provisions are termed reserves; but if so, it should be specifically stated for what purposes the reserve or provision has been made.

Surplus cash invested by many concerns as a deposit account

with the bank, in corporation stock and other securities, is frequently considered by shareholders and even directors as reserve; whereas it is but a change of one asset into another, and may have to be called upon to discharge current liabilities should business requirements demand it.

Reserve Accounts

So much confusion exists in regard to the right application of the terms at the head of our chapter that we may be pardoned in quoting Pixley on the subject—

"Although the terms 'reserve' and 'Reserve Fund' are frequently used in the accounts of companies as though they were synonymous terms, there is a distinct difference between them.

"A reserve is merely the surplus of the credit side of the balance sheet over its debit side, although perhaps the reserve may be divided under such headings as reserve and balance of profit and loss carried forward.

"A Reserve Fund, however, is not merely a surplus shown on the debit side of the balance sheet, but must be represented by special investments, which may or may not be shown distinctly on the credit side of the balance sheet. If, therefore, the reserve is used in the general business of the company it is not a 'Reserve Fund,' although, perhaps, the term might be properly used if some stock used in the ordinary course of the business was specially set aside until reinvested in further stock specially ear-marked.

"The term 'surplus' or 'rest' is a better term to use than 'reserve,' as no one could possibly pretend they were under the impression that such was specially invested."

On the other hand, Dicksee differs from this view, and maintains that "reserves" are those charges made against profit and loss to provide for estimated losses and probable claims against revenue, and that the term "Reserve Fund" is properly used for the surplus of the credit side of the balance sheet, irrespective of whether the amount be invested in or outside the business.

Much discussion has taken place on this debatable point, but there is no doubt that the business man understands that a

reserve is a surplus of profits which the directors have thought it well to have as a "nest egg" to guard against the risks of business from which the company may suffer in future years; whilst a Reserve Fund to him implies that such reserve is invested in good and readily realizable security outside the business.

Therefore, to us it would seem advisable, to prevent the present confusion of nomenclature, that when provisions are made of approximate amounts for such charges as doubtful debts, outstanding trade expenses, income tax, depreciation, etc., the term "provision" should be given, as in the balance sheet (page 109), and that "reserve" should be used for amounts distinctly carried forward to cover or minimize the effect of unforeseen disasters that may happen in future years, and that when the term "Reserve Fund" is seen in a balance sheet it may be understood that on the asset side will appear special investments for the corresponding amount.

In expressing these views we must point out in regard to the question of investments outside the business, it is a matter that must be left very largely to the discretion of the managers. If there is a surplus of cash resources, then it would be wise to invest in a safe outside security; but if the operations of the company require this surplus, and it can be used to the advantage of the shareholders, then outside investing cannot be advised.

Obviously to invest a reserve of £10,000 at a three per cent. return, and by doing so be compelled to pay five per cent. for overdraft with a banker, would hardly be considered sound business policy.

Secret, Hidden, or Internal Reserves

This term is used to signify that certain assets are undisclosed in the company's balance sheet, or that certain assets appear in that account at less than their actual value. Instances of the former are the omission of fixtures and fittings and even of premises, and of investments appearing at much below their market value, or of plant and fixtures which have been so heavily depreciated as to be much below their present worth, stock-in-trade may be credited at much less than cost or present

market prices, and excessive reserves for doubtful debts made on Dr. balances.

Directors of successful companies frequently adopt the policy of having something up their sleeve, and justify the provision of these secret reserves on the ground that in this way they can meet future contingencies without alarming shareholders by calls upon the Reserve Fund. Judicial sanction has also been given to and accountants cleared from liability in passing such accounts. It must be said, however, that although the directors of such concerns may justify themselves on grounds of business policy, yet it seems as though it were a departure from the sound rule that the balance sheet should be a full and fair balance sheet, and should record facts; further, that present shareholders may to some extent suffer in the receipt of current dividends on the sale of their shares by the fact of such non-disclosure of values belonging to the company.

In a recent case, directors went so far as to make special payments from such a secret reserve without disclosure of such to the shareholders. It was, however, decided by the Court that no such power could be lawfully granted in the articles of association.

Sinking Funds

The company on p. 98 has at the end of the period to meet a liability of £6000 premium on the debenture issue. To gradually sink this liability it may be decided to charge Revenue Account with such an amount each year as will, if invested outside the business, produce at the date of payment the sum required. Debentures might also be redeemed by the provision in like manner of such a sum as, with interest, would discharge the liability to the debenture holders. It will thus be seen that a Sinking Fund is one formed by amounts charged against revenue to meet some definite liability of the future, and that to provide the cash to enable this to be done such annual instalments are invested outside the business, so that the investment with interest thereon will enable such liability to be discharged at the fixed date.

As an alternative method of providing the cash for the repayment of the debentures at the due date, a policy may be effected with a first-class company for the amount required at

the end of the period, and the annual premiums charged to profit and loss.

A Sinking Fund may also make provision for the replacement of plant and machinery or the renewal of a lease.

The difference between a Reserve Fund and a Sinking Fund is that the former is a prudential setting apart of profits for unknown eventualities that may occur in the years to come, whilst the Sinking Fund is generally a fixed charge against revenue to provide for a definite future liability or the replacement of wasting assets.

A simple illustration of the working of a Sinking Fund is that of the erection of a school by a county council. The total cost is £20,000, and as the expenditure is not merely for the present requirements, but also to serve a generation to come, it is only just that the expenditure should be spread over a lengthy period.

Further, to charge the whole of the expenses in the current year's accounts would mean a serious increase in the rates. Therefore, the money is borrowed for thirty years, and to cover the principal and interest for such period a one-thirtieth instalment, as shown by tables, is charged against the rates yearly, and placed to Sinking Fund Account to accumulate with interest for the discharge of such liability.

Sinking Funds play a prominent part in the financial dealings of many local authorities.

These authorities obtain borrowing powers for their various undertakings as follows:—

1. By the Sanction of a Government Department—generally the Local Government Board—who operate under the provisions contained in a Public General Act of Parliament; or
2. By a Provisional Order granted by a Government Department and confirmed by Parliament; or
3. By the promotion of a special Act, termed a Local Act.

The power to borrow carries with it an obligation to repay the amount borrowed in a certain fixed number of years from the date of borrowing, and to conform to these conditions the local authority usually provides a Sinking Fund.

Sinking Funds—the object of which is to provide out of revenue moneys such sums as are necessary to sink the liability

of borrowed moneys within a certain time—are of two kinds, viz. "non-accumulating" and "accumulating," and the differences between these two are considerable. In the former, the sums paid out of revenue into Sinking Fund each year will be such equal annual amounts as will in themselves be sufficient to redeem the debt at the end of the term of years allowed by the borrowing power, and any income derived from the investment of such equal annual amounts is, as a rule, credited to the fund providing the annual contributions.

An Accumulating Sinking Fund is one which requires the annual setting aside of such equal amounts of revenue moneys as will, when accumulated at compound interest, produce the amount borrowed by the end of the period prescribed in the borrowing power.

As an illustration of an Accumulating Sinking Fund we will take the case of a local authority borrowing under sanction the sum of £2055 for use in connection with its electric light undertaking, such sum to be repaid in ten years from the date of borrowing. When the money has been raised, a series of calculations referring to the Sinking Fund require to be made, and a Sinking Fund Schedule drawn up as follows :—

ELECTRICITY DEPARTMENT

Calculations showing the annual Sinking Fund required to repay a loan of £2055 in ten years, the rate of accumulation being 3 per cent.

Meters.

Year ending		Annual payments from revenue to Sinking Fund to accumulate at 3 per cent.			Annual interest at 3 per cent.			Annual payments into Sinking Fund including interest.			Total amount in Sinking Fund at end of each year.		
		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
March 31	1906	*179	5	2	—	—	—	179	5	2	179	5	2
	7	179	5	2	5	7	7	184	12	9	363	17	11
	8	179	5	2	10	18	4	190	3	6	554	1	5
	9	179	5	2	16	12	5	195	17	7	749	19	0
	1910	179	5	2	22	10	0	201	15	2	951	14	2
	1	179	5	2	28	11	0	207	16	2	1159	10	4
	2	179	5	2	34	15	9	214	0	11	1373	11	3
	3	179	5	2	41	4	2	220	9	4	1594	0	7
	4	179	5	2	47	16	5	227	1	7	1821	2	2
	5	179	5	2	54	12	8	233	17	10	2055	0	0
		£1792	11	8	£262	8	4	£2055	0	0			

* Obtained on reference to arithmetical tables *re* Sinking Funds.

On or before March 31, 1906, the Sinking Fund would be opened by transferring from Revenue Account the sum of £179 5*s*. 2*d*., which amount would be invested as soon as possible in high-class securities at as high a rate of interest as can be procured; the chief financial officer in carrying out this operation aiming to invest, if possible, at a higher rate of interest than the 3 per cent. upon which the Sinking Fund Schedule is based. During the year to March 31, 1907, the interest receivable upon the invested amount of £179 5*s*. 2*d*. should be, according to the schedule, not less than £5 7*s*. 7*d*.; if less, the Revenue Account has to make it good; if more, the difference is usually carried forward to provide for any future shortages in interest. This income, together with another instalment of revenue moneys amounting to £179 5*s*. 2*d*., would be paid into the Sinking Fund, invested, and allowed to accumulate as before. This procedure is continued until March 31, 1915, the date by which, according to the sanction to the borrowing, the full amount of £2055 should be repaid, and the date upon which the Sinking Fund, in accordance with the above schedule, should stand possessed of funds sufficient for the purpose of repaying the debt outstanding.

Some local authorities prefer to use their Sinking Fund instalments in the redemption of loans instead of investing them, and in these cases they are required to make good the interest upon such used amounts to the extent of the amount which would have been produced had the instalments been invested.

The Journal entries for these transactions may be said to be as follows:—

	£	s.	d.
Dr. Revenue Account. Cr. Sinking Fund Account . . . . (Transfer from revenue.)	179	5	2
„ Sinking Fund Cash Account. Cr. Revenue Cash Account . . (Transfer of Cash.)	179	5	2
„ Sinking Fund Invest. Account. Cr. Sinking Fund Cash Account (Investment of Sinking Fund.)	179	5	2
„ Sinking Fund Cash Account. Cr. Sinking Fund Account (*say*) (Interest received on investments—ignoring personal accounts.)	5	7	7
„ Sinking Fund Invest. Account. Cr. Sinking Fund Cash Account (Investment of interest.)	5	7	7

These entries would repeat annually, except as regards the amounts.

On March 31, 1915, the debt becomes due for repayment,

and the Sinking Fund Investments Account will show a debit balance of £2055, whilst a like figure will be shown on the credit side of the Sinking Fund Account. The investments are then realized, the borrowed money is paid off, and the Sinking Fund Account is closed by transfer to the "Surplus of Assets over Liabilities Account" of the local authority.

The Journal entries consist of the following:—

	£	s.	d.
Dr. Sinking Fund Cash Account. Cr. Sinking Fund Invest. Account (Realization of Investments.)	2055	0	0
„ Mortgagees' Personal Accounts. Cr. Sinking Fund Cash Account (Repayment of debt.)	2055	0	0
„ Sinking Fund Account. Cr. Surplus Account . . . . . . (Transfer and closure of the Sinking Fund Account.)	2055	0	0

The Surplus Account will appear upon the liabilities side of the Balance Sheet of the local authority.

As explanatory of the method adopted for the calculation of the annual instalment required for Redemption Funds Accounts, we give a short illustration for the benefit of students who may be interested in this branch of accounting.

3 per cent. stock £105,278 redeemable in fifty years.

Required annual instalment to Redemption Fund. Accumulations at 3 per cent.

1.

£0·0088655 set aside annually accumulates at 3 per cent. to £1.

∴ £0·008655 × £105,278 = 933·34, or £933 6*s.* 10*d.* Required annual instalment.

2.

£1 set aside annually, accumulating at 3 per cent., amounts in fifty years to £112·7969.

What sum will amount to £105,278?

$$\frac{105278}{112\cdot7969} = £933\ 6s.\ 10d.$$

3.

The annual instalment of £933 6*s.* 10*d.* has been paid into the fund for sixteen years. It is desired to check the correctness of the total accumulations at the end of that period.

£1 annually accumulates at 3 per cent. in sixteen years to	£20·1569
∴ × this by our annual instalment £933 6*s.* 10*d.* =	£933·34
Leaving . .	£18813·26

Which should be in the fund at the end of the sixteenth year.

Above Calculations by Logarithms.

1. *Note.*—Multiplication becomes addition.

Log. £105·278 = 5·0223376
Log. £0·0088655 = $\bar{3}$·9477032

2·9700408 = No. 93334

93334 becomes 933·34 = £933·6·9·60

2. *Note.*—Division becomes subtraction.

Log. £105·278 = 5·0223376
Log. £112·7969 = 2·0522971

2·9700405 = No. 93334 = £933·34

3.

Log. £20·1569 = 1·3044237
Log. £933·341 = 2·9700405

4·2744642

4·2744642 becomes 18813·26 = £18813·5·2.

Depreciation Fund

In previous accounts, we have simply charged profit and loss with the working depreciation, but in the case of manufacturing concerns which have, in view of developments of electrical and engineering progress, to face the possibilities of new inventions and improvements in machinery, and, consequently, the supersession of plant, there arises the question of a prudential depreciation over and above the working one. To meet this, many large concerns form a depreciation fund to cover the risks just described. The annual sum fixed upon is charged against revenue and credited to a depreciation fund account, which will appear ordinarily on the credit side of the balance sheet as reducing the book value of the plant. As will be noticed when we deal with the double account system, this depreciation fund is created to serve as a reserve for the replacement of plant in many undertakings which are compelled to adopt the double account method of dealing with the accounts.

The depreciation fund in such cases appears on the debit side of the balance sheet.

Renewals Fund.—A number of manufacturing concerns and undertakings whose equipment will require replacement at the end of a period, make provision for the replacement of machinery, plant, and equipment by an appropriation from revenue of sums which are invested in outside securities, and allowed to accumulate to provide the cash when required.

EXAMPLE I

RESERVE OR RENEWALS FUND ACCOUNT

Dr.	£	s.	d.		£	s.	d. Cr.
Balance at March 31, 1906, carried to balance sheet . .	11,449	16	4	Balance brought forward, April 1, 1905	3,092	13	5
				Interest on investments	79	1	2
				Interest on uninvested balance at bankers' rates .	7	19	7
				Appropriation Account, amount set aside for renewals	8,270	2	2
	£11,449	16	4		£11,449	16	4

Insurance Funds.—The payment of heavy premiums, or the difficulty of getting first-class offices to insure against certain risks, frequently leads to the formation of a specific reserve intended to cover, either partially or entirely, the various risks undertaken by insurance companies. One establishment we visit merely invests the premiums previously charged for burglary, plate glass, and profit and loss insurances, and allows the accumulation of such amounts and the interest on them to constitute the insurance fund for these risks. The entries in the accounts are—

Profit and Loss Account. Dr.
Insurance Fund. Cr.

for the amount of the premium. For the investment, Investment Account is debited and the Cash credited with the annual payments, and the interest from the investments debited to Investment Account and credited to insurance fund.

Another large firm, instead of carrying the surplus profits to a reserve fund, appropriates a large sum as an insurance fund, and as the revenue account permits, transfers additional amounts, until a reserve of some quarter of a million sterling

appears in the accounts as the insurance fund. This, it is important to note, is invested in gilt-edged and readily realizable securities, so that it may be perfectly safe and available in the event of calls being made upon it. It will readily be seen that such an internal insurance fund reduces the charges against revenue very considerably. The entries in the accounts would be similar to those in the case of an ordinary reserve fund—

	£	£
Profit and Loss Appropriation Account. Dr. .	10,000	
To insurance fund. Cr.		10,000
Insurance Fund Investment Account. Dr. . .	10,000	
To bank		10,000

In this case the return on such investments is credited to the Revenue Account, the insurance fund being increased by direct appropriation from the revenue, when thought desirable.

We also find that steamship companies at times arrange to underwrite part of the risks on their own vessels, in which case an Underwriting Account will be kept, to which will be credited the net amount of the portion of the premiums charged and the risks covered, and in the event of claims the proportion to be borne charged against it. Any credit balances may either be taken to Revenue Account as a profit on the current year's operations, or may be carried forward as a Reserve or Marine Insurance Fund for future operations and risks.

Suspense Account.—This is one opened to place or hang up for a time any items of which the ultimate disposal is uncertain. For instance, payments are sometimes received by post without knowledge of the sender's name, and even cashiers at times omit the name on the counterfoil of a receipt-book. Slight differences in the balancing of books that have been partly audited are also passed to such an account, but this use of the account is reprehensible.

The account also appears in the balance sheet to include expenditure apportioned over a period of years as Suspense Account for advertising, Suspense Account for expenses of issue of debentures, preliminary expenses, for adjustment of income tax charges, and for repairs and alterations, which in a particular year have been unusually heavy. The term "Suspense Account" only, without any explanation, is misleading, and should not appear in the accounts.

Premiums on Shares.—Banking and insurance offices, as also prosperous trading companies, in issuing additional share capital are able to obtain a premium for the shares allotted. Such premium is very properly considered as not being available for profit distribution, but is transferred to the credit of a reserve account or fund; if, however, there are "paper assets," such as preliminary expenses, still appearing in the books, it is considered that such items may properly be cleared off from the Premium Account. The entries for such an issue would be—

	£	£
Cash. Dr.	15,000	
To application and Allotment Account		15,000
For application and allotment money of 10s. per share on 20,000 shares, and premium of 5s. on each share.		
Application and Allotment Account. Dr.	15,000	
To Share Capital Account		10,000
,, Premium Account		5,000

Reserve Capital.—In the balance sheets of certain joint-stock banks and other companies this term may be noticed. The power to reserve capital is granted by the Companies Act of 1879, which provides that a limited company may, by special resolution, declare that any portion of its uncalled capital shall not be called up, except in the event of the company being wound up. This reserve capital cannot be charged or dealt with by the directors, and only by leave of the Court, be converted into ordinary capital.

This matter of reserve capital is of great importance to debenture holders, as it has been held that, even though uncalled capital may be included in the debenture charge, this will not include a first claim upon the reserve capital.

As the student may now be expected to have a good knowledge of the distinction between capital and revenue accounts without the aid of a statement in trial balance form, we place before him a statement of particulars from which he may test his knowledge by the preparation of a trial balance and balance sheet, the latter of which is given as illustrating many of the points dealt with in this and the previous chapters.

EXAMPLE II

Authorized Capital—£200,000, divided into 100,000 Ordinary Shares of £1 each and 100,000 6 per cent. Cumulative Preference Shares of £1 each.

50,000 preference shares have been issued, and are fully called up.

50,000 ordinary shares have been issued, and 15s. per share called up.

The authorized debenture issue is £100,000.

	£
Preference share capital paid up	49,500
Calls on preference shares in arrear	500
Ordinary share capital paid up	37,400
Calls on ordinary shares in arrear	100
Debentures issued—100 bonds of £100 each, bearing interest at 4½ per cent. per annum	10,000
Ordinary shares—calls paid up in advance	300
Cash at bank	1,650
„ in hand	90
Trade creditors	3,860
Trade debtors	19,600
Stock in hand, Dec. 31, 1904	12,350
Fixed plant and machinery	33,200
Freehold land and buildings	27,500
Loose plant and tools	9,600
Reserve fund	6,000
Patterns and drawings	5,000
Investments on account of reserve fund	5,500
Reserve for bad and doubtful debts	980
Depreciation fund for plant and machinery	1,600
Dividend on preference shares for the year	2,970
Interim dividend on ordinary shares	1,870
Profit and Loss Account, balance after paying interim dividend on ordinary shares and dividend on preference shares	4,850

DEVONSHIRE IRON CO., LTD.

BALANCE SHEET, DECEMBER 31, 1904

Dr.

	£	s.	d.	£	s.	d.	£	s.	d.
To authorized capital—									
100,000 ordinary shares £1 each	100,000	0	0						
100,000 6% cum. pref. shares £1 each . .	100,000	0	0						
	200,000	0	0						
To subscribed capital—									
50,000 ordinary shares 15s., called up . .	37,500	0	0						
Less calls in arrear .	100	0	0						
	37,400	0	0						
Add. calls paid in advance	300	0	0						
				37,700	0	0			
50,000 pref. shares .	50,000	0	0						
Less calls in arrear .	500	0	0						
				49,500	0	0			
							87,200	0	0
To debenture capital, authorized issue, 1000 bonds of £100 each 4½%	100,000	0	0						
Debentures issued, 100 bonds £100 each . .							10,000	0	0
To creditors							3,860	0	0
„ reserve fund . . .							6,000	0	0
„ Profit and Loss A/c .				9,690	0	0			
Less pref. div. paid .	2,970	0	0						
Interim div. ord. shares	1,870	0	0						
				4,840	0	0			
							4,850	0	0
							£111,910	0	0

Cr.

	£	s.	d.	£	s.	d.
By freehold buildings .				27,500	0	0
„ fixed plant and machinery	33,200	0	0			
Less depreciation fund	1,600	0	0			
				31,600	0	0
„ plant and tools . .				9,600	0	0
„ patterns and drawings				5,000	0	0
„ Reserve Fund Investment Account . .				5,500	0	0
„ stock				12,350	0	0
„ trade debtors . . .	19,600	0	0			
Less reserve for bad and doubtful debts	980	0	0			
				18,620	0	0
„ cash at bank . . .	1,650	0	0			
„ „ in hand . . .	90	0	0			
				1,740	0	0
				£111,910	0	0

QUESTIONS AND EXERCISES

71. What is meant by Provision Accounts? Give examples.

72. State how Provision Accounts are entered in a balance sheet.

73. Distinguish between reserves and a reserve fund.

74. Explain the terms, surplus, rest, secret or internal reserves, reserve capital, insurance fund.

75. What is a sinking fund, and how does it differ from a reserve fund?

76. Discuss the use of a Suspense Account, and give examples of its use.

77. Distinguish between accumulating and non-accumulating sinking funds.

78. What is meant by a depreciation fund? State its place in the balance sheet.

79. How would you deal in the accounts with premiums on shares?

80. A company has issued £20,000 5 per cent. debentures redeemable at par out of profits, at the end of twenty years. State what method should be adopted to provide for such redemption, so that each year's profit may bear its due proportionate burden of contribution.

81. The Turbine Steamer Company, Ltd., owns a fleet of fourteen steamers trading to the Eastern seas. These boats are at present insured in the ordinary way at Lloyds; but the company desires to effect its own insurance for the future. Explain briefly what steps should be taken to inaugurate an internal marine insurance fund, and state what entries would appear in the books and annual accounts of the company when the fund was in operation.

CHAPTER IX

INCOME TAX

Persons liable—Classification of Income—Regulations for calculating Profits—Deductions—Abatements—Allowances—Forms of preparing Accounts for the Commissioners—Examples—Change in the Rate—Dividends free of Income Tax—Adjustment Account—Repayment of over-Assessment, section 133—Finance Act, 1907.

In the month of May of each year most business men receive from the local surveyor of taxes a form of return for income tax assessment. The filling up of this lengthy and somewhat complicated form of four pages is to many recipients so difficult and worrying a task as to be frequently postponed, so that at the finish the service of the accountant is required to either make the return or to deal with the correction of an over assessment.

Originally levied as a temporary expedient for furnishing the wherewithal for war expenditure, the tax has become so fruitful a source of revenue that it seems likely to be always with us.

The rate is fixed each year by the Finance Act, better known as the Budget, which is presented annually to the House of Commons by the Chancellor of the Exchequer, who fixes the rate according to the estimated financial requirements of the country for the coming year. The present rate of income tax is, subject to certain exemptions and abatements, 1*s.* in the £, and the period covered is from April 6 of the current year to April 5 of next year. As its name implies, it is a tax on income, and not merely on profits, and the fact of this distinction being often misunderstood is a frequent cause of error in statements placed before the income tax commissioners, resulting in much trouble and annoyance to those concerned.

Persons liable to assessment:—

All persons resident in the United Kingdom, including foreigners.

All persons not resident in the United Kingdom, receiving income arising in the United Kingdom.

Classification of Income.—By the provision of five schedules, every source of income is meant to be included for taxing purposes. These schedules are :—

A. Income derived from land and properties.

B. Income derived from occupation of lands.

C. Income derived from annuities and dividends from public funds.

D. Income derived from trades, professions, or vocations.

E. Income derived from salaries, fees, etc., from public bodies and companies.

As, in accounting, our main concern is with Schedule D, we need only mention the following points in connection with the other schedules :—

Schedule A.—This is usually known as property tax, and is paid by the landlord, except in the case of cottages to a less annual value than £10, and small weekly and monthly properties, where the owner is assessed. It is usually levied on the tenant, who, after payment of the amount, deducts it from the next payment of rent. The assessment is generally made on the poor-rate valuation, and from this an allowance of one-sixth in the case of houses and buildings, is deducted for repairs, etc. In some instances, where houses and shops may be let at a low rental, the assessment may be higher than the actual rent paid.

Schedule B is a schedule for profits from farming, market gardening, etc., and may be assessed—

(1) As one-third of the gross annual value, under Schedule A ; or—

(2) Under Schedule D.

Schedule C.—This arising from the capital invested in public funds is deducted from the payments made by Government officials.

Schedule E.—The tax under this schedule is paid by corporation and government officials, and the officers of public companies, and includes the income from salaries, fees, wages, perquisites, pensions, and other profits. A claim may be made for expenses necessarily incurred in the performance of the duties of the office or employment. The tax is based on the actual salary or income of the year, and not, as in Schedule D,

on a three years' average, and an increase of the salary during the year is liable to an additional assessment.

Secretaries of joint stock companies should note that directors, managers, and auditors are included in this schedule, and that managers of departments, secretaries, cashiers, and chief clerks are not entitled to be assessed under the three years' average.

Schedule D.—A memorandum of general explanation and instruction is enclosed of the Form of Return, No. 11A. The following notes are given—

RULES AND REGULATIONS FOR CALCULATING PROFITS FROM TRADES, PROFESSIONS, EMPLOYMENTS, OR VOCATIONS

The tax extends to the profits of all trades, etc., carried on or exercised in the United Kingdom by any person whatsoever, whether a subject of His Majesty or not, and wheresoever residing; and also to the profits of trades carried on or exercised elsewhere than in the United Kingdom, if carried on or exercised by persons residing in the United Kingdom.

Average

The amount of profits is to be computed on an average of the three preceding years, ending either on the 5th day of April, 1906, or on the date prior thereto to which the Annual Accounts have been usually made up;

Or, if the trade, etc., has been set up or commenced within three years, on an average, from the period of commencing the same;

Or, if commenced within the year of assessment, the profits are to be estimated according to the best of your knowledge and belief, and the grounds on which the amount shall have been estimated should be stated for the information of the commissioners.

In computing the profits upon which the average is to be taken—

DEDUCTIONS are allowed—

For repairs of premises occupied for the purpose of the trade, etc., and for the supply or repair of implements, utensils, or articles employed, not exceeding the sum usually expended for such purposes according to the average of the three years preceding.

For debts proved to be bad; also for doubtful debts according to their estimated value.

For the rent of premises used *solely* for the purposes of business, and not as a place of residence.

For a proportion, not exceeding two-thirds, of the Rent of any dwelling-house *partly* used for the purposes of business.

For the Annual Value of any premises occupied by the owner *solely* for the purposes of business, and not as a place of residence, according to the amount on which duty has been paid under Schedule A.

For a proportion, not exceeding two-thirds of the Annual Value (according to the amount on which duty has been paid under Schedule

A), of any dwelling-house occupied by the owner and *partly* used for the purposes of business.

For any other disbursements or expenses wholly and exclusively laid out for the purposes of the trade, etc.

NO DEDUCTIONS are allowed—

For any INTEREST on CAPITAL, or for any ANNUAL INTEREST or any ANNUITY or other ANNUAL PAYMENT, payable out of the profits or gains. (The duty on such interest or annual payment should be deducted from the person to whom the payment is made.)

For any sums paid as salaries to partners, or for drawings of partners.

For any sums invested or employed as CAPITAL in the trade or business, or on account of capital withdrawn therefrom.

For any sums expended in improvement of premises, or written off for depreciation of land, buildings, or leases.

For any loss not connected with, or arising out of the trade, etc.

For any expenses of maintenance of the persons assessable, their families, or private establishments.

For any loss recoverable under any insurance or contract of indemnity.

For any sum paid as income tax on profits or gains, or on the annual value of trade premises.

For any premium for life insurance, or for wear and tear of machinery or plant; but ALLOWANCES MAY BE CLAIMED in respect of these items.

In considering the above it will be observed that the deductions allowed are only those necessary for carrying on the business, bad debts, and the estimated value of doubtful debts, rent, and repairs. Of course, the ordinary trade expenses, such as wages, rates, carriage, travelling expenses, fire, accident, and glass insurances, general expenses, etc., will be allowed.

In explanation of the deductions not allowed we may say that interest on capital and salaries to partners, form part of the income of the partners upon which they would be assessable if not acting as principals. Expenses of maintenance and withdrawals of capital or private payments, such as life insurance premiums, voluntary subscriptions, income tax (which includes property tax), are also a personal liability, quite apart from business. The provision of an annuity or a thrift fund, being an investment of capital, can hardly be considered as an expense essential to carrying on the trade. We could hardly expect the allowance of a loss recoverable under an insurance or indemnity.

Expenditure on improvement of premises, premiums for renewal of leases, are taken to be capital expenditure, and for the same reason the depreciation of land, buildings, leases, goodwill, patents, preliminary expenses are not allowed, being

losses of capital. In fact all depreciation must be eliminated from the accounts, but the taxpayer may make a claim for the wear and tear of machinery, plant, fittings, and fixtures used in carrying on the business and, in the substitution of new machinery for old, the value of the latter from the cost of the new plant. The rate allowed for depreciation is usually 5 per cent., but this is left to the discretion of the commissioners or surveyors, many of whom consider that the allowance for repairs and replacements is ample.

Most business men consider the disallowance of depreciation or of a concession of 5 per cent., as against 7½ to 25 per cent. charged in the accounts, as being far from fair treatment. For instance, a ten years' lease is purchased for £1000 written off £100 per annum against revenue, making it virtually a rental—no allowance, resulting in a loss of £50 during the ten years.

Such payments as chief rents, interest, and mortgages are not allowed to be charged in the profit and loss statement, the reason being that on payment the income tax would or should be deducted from the sums. Bank interest on an overdraft will, however, be allowed as a charge, the bank including the tax in their return of profits.

This calls our attention to the policy of the Government in as far as possible, charging the tax at its source. As we have seen, chief rents and interest are paid less the tax, so also with dividends and debenture interest, which, as a general rule, are paid less income tax. An illustration will help in understanding this.

John Welltodo owns property assessed at £900, upon which he pays tax less £150 deduction for repairs and expenses.

He pays a chief rent of £160, from which he deducts £8 as tax, and also pays mortgage interest of 4 per cent. on a sum of £5000, viz. £200 less tax of £10, and interest on a second mortgage of £2000 at 5 per cent., from which he deducts tax of £5.

In this way the tax authorities receive at first hand the tax of £37 10*s.*, leaving John Welltodo the collection of the tax from the owner of the chief rent and the mortgagees. When this is done J. W.'s net payment of tax is £14 10*s.* on his net taxable income of £290. Claiming abatement of £160, his actual payment of tax would be £6 10*s.*

As illustrating the way in which the various schedules bring in the different classes of income, note the following:—

A. Pickwick, a corporation official, is financially interested in the following:—

Owner of property.	Assessment under Schedule A, deducted from rents or paid direct.
Joint interest in market garden on his land.	Assessment under Schedule B, probably charged in firm's accounts.
Investments in Consols.	Assessment under Schedule C, deducted in payment of interest.
Holder of shares, and debentures, in joint stock company.	Assessment under Schedule D, deducted from dividends and interest.
Fees as director of above company.	Assessment under Schedule E, either deducted from fees or paid direct.
Salary as corporation official.	Assessment under Schedule E, paid direct.

Exemption.—When the income of a person from all sources does not exceed £160, exemption from the income tax can be claimed.

Abatement.—From incomes of from £160 to £700 abatement may be claimed as follows:—

£160 to £400	abatement	£160
£400 to £500	„	£150
£500 to £600	„	£120
£600 to £700	„	£70

It must be observed that remission of income tax can only be claimed in the case of individuals, and not by bodies corporate or incorporate.

An allowance is also made for premiums of life assurance effected in a British office, not exceeding one-sixth of the total income of the taxpayer.[1] This allowance is not to be taken into account in reducing the amount for abatement: thus with an income of £520 and an insurance premium of £30 the tax would be payable on £370. It may be pointed out that no allowance is made for payments made to thrift funds, as in the case of corporation officials, who frequently prefer making provision for later years in this form than in paying premiums on endowment policies in an insurance company.

Inspection of the deductions not allowed will show that the Profit and Loss Accounts prepared for trading concerns frequently

[1] By the Finance Act of 1906, this allowance is also made on premiums paid to legally constituted foreign offices. See p. 370.

include charges against the profits which would not be allowed by the commissioners. The bookkeeper or accountant is, therefore, called upon to submit to the surveyor an amended Profit and Loss Account; this may take the form of a copy of the account in the books showing the adjustments that it has been necessary to make, or an amended account may be prepared in which only the allowed items are included.

Example of Method 1

	1904.	1905.	1906.
Profit as per Profit and Loss Account . .			
Add Interest on capital			
„ loans			
Partners' salaries			
Depreciation, land and buildings and lease			
Depreciation, machinery			
„ fixtures			
Income tax			
Property „			
Deduct assessment of premises—Schedule A.			

Profit 1904	
„ 1905	
„ 1906	
	3)
Annual average	
Less allowance for depreciation of plant, machinery, and fixtures .	
Less abatement	
Life Insurance—Premium	

Example of Method 2

Trading Account

Dr.	£ s. d.		Cr. £ s. d.
To stock brought forward		By sales	
To purchases (net) . .		„ stock on hand . .	
„ gross profit . . .			
	£		£

PROFIT AND LOSS ACCOUNT

Dr.	£	s.	d.	Cr.	£	s.	d.
To carriage				By gross profit . . .			
„ rates and taxes . .				„ discounts			
„ insurance							
„ lighting							
„ salaries, wages, travellers' commission							
„ general expenses .							
„ stable expenses . .							
„ repairs							
„ advertising . . .							
„ bad debts							
„ net profit							
	£				£		

Profit 1904 . . .	
„ 1905	
„ 1906	
	3)
Average . .	
Less claim for depreciation	
„ abatement.	
„ life insurance premium	

The former method, as giving the actual figures in the books, and therefore preferred by the surveyors, is the one usually supplied in practice. As a simple example let us deal with Mr. Reader's Profit and Loss Account on p. 12.

EXAMPLE III

PROFIT AND LOSS ACCOUNT. A. READER

December 31, 1906

		£	s.
Net profit as per account		9	0
Add A. Reader's salary		300	0
„ interest on capital		150	0
„ „ loan		25	0
„ depreciation		55	0
		539	0
Less claim for depreciation at 5 per cent.		22	10
		516	10
Less abatement	£120		
„ life assurance premium . . . . , ...	30		
		150	0
		£366	10

Supposing the partners to have no other source of income, and the profits, on division, such as to enable them to claim abatements, a separate return should be made by each member of the firm. Thus if Johnson & Co., consisting of A., B. and C. Johnson dividing profits equally, make a profit of £1740, each partner on a personal assessment would claim an abatement of £120, that is if such partners' total income is represented by the £580 profit derived from the business.

In making the return for Serge and Cheviot (p. 34), it will be noticed that as the premises are owned by the firm no charge is made against profit and loss for rent. As an assessment for the premises has been made and tax paid under Schedule A, deduction will be allowed for such assessment. When, however, premises are occupied by the taxpayers, a rental for such occupation is considered to be a personal expense, and an amount of not more than two-thirds of the assessment allowed as a deduction from or charge against profits, the other third being regarded as the rental for the beneficial ownership.

Example IV

Serge and Cheviot

December 31, 1902

		£
By profit as per Profit and Loss Account		8,400
Add interest on mortgage		450
„ interest on capital		1,900
„ depreciation		1,560
„ reserve fund		840
„ income and property tax—charged in Taxes Account, say .		350
Total		13,500
Deduct assessment of premises under Schedule A . .		
„ claim for depreciation:		
„ „ machinery and plant		
„ „ fixtures and fittings		

Example V

Let us now prepare the statement for the North London Engineering Company (p. 93).

	£	£	£
To profit as per Profit and Loss Account			5507
Add mortgage debenture interest . . .		360	
„ depreciation of machinery, 10 per cent.		1248	
„ patents written down		180	
			1788
			7295
Deduct rents received		374	
„ annual value of freehold works . .	1200		
Less one-sixth	200		
		1000	
			1374
			5921
Probable allowance of 5 per cent. for depreciation of machinery			624
			£5297

Example VI

A. B. makes profits in his business for three years, in arriving at which $2\frac{1}{2}$ per cent. depreciation on buildings, and 10 per cent. on machinery have been charged, as well as interest on loans, income tax, property tax on the premises, which are his own subject to a chief rent, repairs of premises, and salary of himself each year; while in the first year the balance of a lease of premises previously occupied by him, and the cost of removal to his present premises, had to be borne. His life is insured, in respect of which he pays annual premiums.

Make out his income tax returns without figures.

	1st year.	2nd year.	3rd year.
Net profits separate accounts			
Add interest on loans			
„ income tax			
„ salary of A. B.			
„ property tax paid			
„ depreciation of buildings			
„ „ machinery			
„ balance of lease of premises			
„ cost of removal[1].			
Deduct allowance for wear and tear of machinery			
„ annual value of premises			
„ life insurance			
„ abatement			

Change in Rate of Tax.—Another point to notice is that in the event of a change in the rate of income tax, say from 1*s.* to

[1] If a compulsory removal, this item would probably be allowed.

10*d.*, allowance has to be made in the deductions from dividend and interest receipts and payments, thus a year's dividend to the 31st December of the year in which the reduction had taken place, would have the tax deducted at the rate of 1*s.* from January 1 to April 5, and at 10*d.* from that date to December 31.

Dividends free of Income Tax.—Occasionally companies declare dividends free of income tax, which means that the tax will be paid by the company, and charged to revenue account. A 10 per cent. dividend free of income tax, practically means that the shareholder receives 10½ per cent. dividend. For example, a £10 payment of dividend means approximately 10*s.* tax (1*s.* in the £), the 10*s.* being paid by the company.

Adjustment Account.—In the case of joint stock companies, the income tax transactions are somewhat complicated, owing to—

(*a*) The deduction from dividends and debenture interest of income tax.

(*b*) The three years averaging of profits.

(*c*) The adjustment of Profit and Loss Account to satisfy the income tax commissioners in regard to depreciation, etc.

(*d*) The charge being made in advance.

It is, therefore, necessary to open an Income Tax Adjustment Account in order that revenue may be charged with the proper amount, and that the correct statement of the liability, or otherwise, may appear as a Suspense Account in the balance sheet.

For example, the assessment on a company for 1906–7, on the three years' average, is £300. Accounts are made up to December 31, 1906, and dividends paid, from which £220 is deducted as tax. We therefore have, say, £60 to charge against 1906 accounts, and £20 to carry forward in suspense for the tax January 1 to April 5, 1907.

Income Tax Account

	£		£
To commissioners	300	By Dividends Account	220
		„ Rent and Taxes Account, or Profit and Loss	60
		„ balance carried down . . .	20
1907.	£300		£300
Jan. To balance carried down	20		

Although it is common knowledge that, in spite of all the care given by the surveyor of income tax in obtaining correct returns, many who are liable escape the tax or pay less than

they should, yet others neglect to claim the return of sums deducted from their income in the forms of interest and dividends, when a little trouble in filling up the forms that may be obtained at the surveyor's office would enable them to have the tax refunded. For example, a lady in receipt of income from investments of £140 per annum, has £7 deducted in various sums on payment to her. She is ignorant that this would be refunded on taking the necessary steps, and so her income is diminished by £7.

Repayment of Over-Assessment, Sec. 133, *Income Tax Act,* 1842.[1]—Increased competition and other adverse causes may place a business on the down grade, and thus it may happen that, on making the return on the three years' average, the profits of the current year fall below the amount so ascertained and paid. Relief is given by sec. 133 of the Income Tax Act, 1842, as amended by sec. 6 of the 1865 Act, which provides that on application to the authorities, the taxpayer may claim repayment of the sum paid in excess. It is provided that should the actual profit of the current year be less than the assessment, based on the average of the three previous years, a new average may be made of the actual profit of the current, and the amounts of the two previous years; and repayment may be claimed of the tax paid in excess, *i.e.* on the difference between the old average and the new average, unless the actual profit of the year exceeds the latter sum, in which case tax will only be refunded on the difference between the profit earned and the old assessment.

Example I

1903.	1904.	1905.	
£2000	£1600	£1200.	Average £1600 for 1906–7 assessment.

The profit for 1906 turns out to be but £1100, therefore, taking advantage of sec. 133, we find—

1904.	1905.	1906.	
£1600	£1200	£1100.	Average £1300.

And as the tax has been paid on £1600, claim may be made to recover the tax on the over-assessment of £300, viz.—

£	
1600.	Assessment for 1906 on average of 1903–5.
1300.	Average of actual profit for 1906, and the two previous years.
£300	

[1] Repealed by the Finance Act of 1907. See p. 140.

Notice that in this case that the claim can only be made on the difference between the first and second averages, and not on the difference of the actual profit of 1906 and the old average.

Should it be desired to take advantage of sec. 133, there should be no delay, but immediately on the accounts being made up, notice of the claim should be given to the surveyor.

Example II

In the month of June, 1902, A. B. and Co. made return of profit for income tax assessment under schedule D, for the year ending April 5, 1903. The amount was £9000, being the average of the three years ended December 31, 1901, namely: 1899, £9000; 1900, £10,000; and 1901, £8000. The assessment was duly made, and the tax on £9000 paid in January, 1903. Some months later, when the accounts for the year 1902 were made up, the taxable profit for that year was ascertained to be £6900. State what adjustment and relief A. B. and Co. are entitled to, and how such relief is to be obtained; also state what difference it would have made in the amount of the relief if the profits of the three years ended December 31, 1901, had been: for 1899, £13,800; 1900, £6200; 1901, £7000.

In the first case, repayment may be claimed of tax on £700, the differences between the new and the old averages. In the second instance, as the actual profits will be found to exceed the new average, the original assessment would stand, and therefore no claim could be made.

This is according to the Act, but in practice it will generally be found that the surveyors will allow either the difference between the new average and the old, or between the figures of the actual year and the old average, whichever is in favour of the Inland Revenue. Thus referring to the above example—

	Old average.		New average.
	£		£
1899	13,800	1900	6,200
1900	6,200	1901	7,000
1901	7,000	1902	6,900
	3)27,000		3)20,100
	9,000		6,700

it will be seen that the actual year of assessment (1902) is higher than the new average, and that therefore the difference reclaimable is between £9000 (*i.e.* the old average) and £6900, the actual profits for the year, viz. £2100.

The Finance Act of 1907 repeals sec. 133 of the Income Tax Act of 1842.

The Act also introduces a new feature by allowing an abatement of 3*d.* in the £ on the amount of *earned* income in cases where the total income from all sources does not exceed £2000. This is additional to the abatements given on p. 132 and to the allowance on life insurance premiums.

A tax-payer claiming the above abatement must prove before September 30th that his income from all sources does not exceed £2000, and satisfy the surveyor as to the amount of *earned* income on which he claims the allowance.

Another point to notice, is that employers are required to make a return giving the salaries of all employees liable to the tax.

Assessments may be amended and penalties recovered within a period of three years.

Further, it is provided, that until it is possible to take a three years' average, the estimate of profits will be based on the actual profits of the preceding year.

QUESTIONS AND EXERCISES

81*a*. Give one example of income included in each of the schedules under which the tax is collected.

82. What is property tax? Who usually pays it? and on whose behalf?

83. Give a list of the deductions not allowed in computing profits.

84. What difference may it make to an employee if assessed under Schedule E instead of Schedule D?

85. State the abatements allowed on incomes under £700.

86. X. has been for some years receiving from a private firm a salary of £520 per annum. He owns £1000 worth (nominal) of each of the following: 4 per cent. railway debentures, 3 per cent. Australian Government Stock, 2½ per cent. Consols, laundry company shares paying 9½ per cent. free of tax. What should he return as his income for assessment, and why?

87. The Z. Co., Ltd., shows the following profits for the years 1901, 1902, 1903, viz.: £762, £520, £660. These figures include £60 per annum interest on reserve fund invested, and are arrived at after charging for the respective years—income tax, £15, £20, £18, depreciation of plant, £250, £220, £200, rent and rates paid £280 per annum, insurance £40, and debenture interest £350 per annum. Prepare the return for assessment for the year 1904–5, after agreeing upon £175 depreciation with the surveyor.

88. Give the nominal account for income tax as you would enter it in the

company's ledger, showing how much would be debited to Profit and Loss Account for 1904.

89. Adjust for income tax (Schedule D) purposes the Profit and Loss Account of Messrs. Robert Sawyer and Sons, timber merchants, set out below, and show the amount assessable for tax. The profits for the years 1902 and 1903, upon which tax was payable, were agreed with the Inland Revenue Surveyor at £2304 and £1858 respectively.

PROFIT AND LOSS ACCOUNT

		£		£
To salaries		920	By balance from Trading Account	5430
„ bad debts		425		
„ interest on capital		1050		
„ income tax		56		
„ depreciation on plant at 10 per cent.		780		
„ loss through cashier's embezzlement		108		
„ reserve for bad debts— December 31, 1904	£870			
„ „ 1903	720			
		150		
„ annuity to G. Sawyer, sen.		350		
„ profit for the year carried down		1591		
		£5430		£5430

90. The accounts of the Witney Woollen Company showed the following results :—

	£
Profit for the year 1903	7250
„ „ 1904	6220
„ „ 1905	4460

These profits included three years' income received from investments £850, from which tax had been deducted, and there had been charged three years' income tax £1200, and three years' depreciation of machinery, £1600. The buildings are the property of the company, and are assessed under Schedule A at £550. Prepare the account for assessment under Schedule D for the year 1906–7, assuming an admitted allowance for wear and tear of £400.

91. A client takes stock once in eighteen months, and his business profits for two of these periods (after withdrawing a management salary of £250, and charging interest of £400 per annum upon his capital) are £1800 and £2200, such profits including £100 per annum on debentures. Prepare his return for income tax.

92. From the figures below for the year ending December 31, 1904, of a firm consisting of three partners, make up the return for income tax, showing clearly how you arrive at same, and stating your reasons.

The profits for the years ending December 31, 1902 and 1903, were £1020 and £875 respectively.

	£
Gross profit	2475
Rent, rates, and fire insurance	150
Wages	325
Partners' salaries	200
Commissions paid	50
Discounts received	25
Bank interest	20
Life insurance premium on the joint lives of the partners	50
Bad debts written off	225
Reserve for bad debts	100
Interest on capital	150
Interest on loans	50
Dividends on consols	20
Insurance against bad debts	70
Discounts and allowances, debit balance	40
Income tax	80

92*a*. From the following Profit and Loss figures for three consecutive years prepare in proper form an account for submission to a surveyor of taxes. The closing stock is £1000.

	1903.	1904.	1905.
Purchases	£10,000	£9,000	£8,000
Cottage rents received	100	100	100
Profit on shares sold	200	—	—
Stock, January 1	4,500	5,000	1,200
Life premium	40	40	40
Rent and rates	250	220	230
Salaries	400	510	510
Income tax	60	50	50
Gas and water	30	35	40
Depreciation of machinery 10 per cent.	500	500	500
Stable expenses	200	180	190
Proprietor's drawings	800	500	650
Sales	12,000	15,000	11,000

92*b*. Jones and Robinson turned their business into a limited company on January 1, 1904, as Jones, Robinson and Company, Limited.

The profit for the year ended December 31, 1904, was £3000, after charging interest on debentures, £400, interest on loan, £150, income tax, Schedule A, £50, Schedule D, £225, directors' fees—William Jones, £500, Thomas Robinson, £350, and John Jackson, £150.

The profits for the year 1902 and 1903 of the old firm were agreed with the surveyor of taxes at £3000 and £4500 respectively, and it was arranged to consider the business as a continuing one.

What should be the amount of the company's assessment under Schedule D for the year 1905–6?

92*c*. State the principal features of the Finance Act of 1907 in regard to income tax.

CHAPTER X

DEPARTMENTAL, AGENCY AND BRANCH ACCOUNTS

Departmental Books and Trading Accounts—Departments—Shops—Manufacturing Concerns—Foreign Branches—Examples of Consignment and Current Accounts—Agency Accounts with Examples—Ascertainment of net Profits on Departments.

In visiting many large establishments we are interested in finding how admirably the account keeping is designed to give the maximum of information with the minimum of time and trouble in regard to the extensive and complicated operations of the capitalist. One warehouse we visited has its twenty or more departments, each under its responsible head, who practically carries on a business in regard to the trading in the particular class of goods of which he has special knowledge.

Again, we have the capitalist who controls the business of, it may be, fifty retail shops in various parts of the country; and another principal who has financial interest in branch establishments on the continent, the colonies, or in the United States. Then late years have seen huge amalgamations and combines of special branches of industry and trade with enormous capitals.

Let us first consider, in a general way, the manner in which the accounts are framed to deal effectively with the essentials of the subdivisions and extensions. Taking the ordinary case of a house with but a few departments, we find in use, as dealing with the goods, the columnar Day Books and Returns Books in which purchases, sales, and returns are analyzed and posted in monthly totals to the respective departmental accounts.

EXAMPLE OF PURCHASES OR SALES DAY BOOK

Date.	Invoice No.	Name.	Description of Goods.	Ledger Folio.	Total.	Departments.		
						A.	B.	C.

The principal modification of accounts as compared with those of the previous chapters is that the Trading Account will show the profit or loss of each department; whilst the departmental accounts give the volume of business, and the stocks of each branch of the trade, and further we notice that the subsidiary books have been adapted to answer these purposes.

At another neighbouring establishment, where over twenty departments are in active work, we discover that each department is expected to keep a set of subsidiary books—Purchases, Sales, Returns, and Stock Books; the postings to the personal accounts being made in the general office.

In many concerns it is usual to make an apportionment of the general expenses, and of special charges to the departments, and to charge interest on the capital employed in the particular branch. In this way the principal ascertains the net profit or loss on each branch, whereas in the method above described only gross profit was shown.

In retail establishments doing a large cash business each department is debited with the purchases made for it, charged with a percentage of profits expected to be made, and credited with the sales; the taking of stock serves to check the supervision on the goods, and shows whether or not the fixed profit has been made by the department, thus—

GLOVES

To stock at selling price.	By cash sales.
„ purchases.	„ stock at selling price.

Much the same method is adopted in the case of a number of branch shops, which practically are departments not limited to

the one roof. Here, however, the expenses of the shop in the shape of rent, rates, wages, stable expenses, and depreciation, and it may be interest on the capital employed, will be charged against the branch, and thus each manager enabled to show the net profit or loss on his branch.

Manufacturing concerns departmentalize the different processes of manufacture, each section being charged with materials and stores, productive wages, apportionments of rent, rates and taxes, fuel, illuminating power, etc., and also the percentage for establishment charges; and credited with its output of finished parts or work, and the transfers to other departments at a standard rate or the market price.

Foreign and Colonial Branches

Foreign trade is conducted in a variety of ways, and is complicated by the question of currency entering into the accounts. Perhaps the simplest case is that in which a merchant ships to an agent a consignment of goods to be sold on his account and risk. As an example take the following:—

Richard Random and Sons shipped goods to Paul Gold, their agent at Cape Town, on September 1, 1904, and sent therewith a *pro forma* invoice for £578 (goods £500, freight £60, and insurance £18). On October 28, 1904, Paul Gold sent home an Account Sales, from which it appeared that a portion of the goods had realized £460, and deducting expenses £10 and commission £25, he enclosed draft at three months for the balance. The stock remaining unsold amounted, at invoice prices plus expenses, to £280. On November 2, 1904, he sent home another Account Sales, which showed that the balance of the consignment had realized £320, which, less £8 expenses and £10 commission, he remitted by a three months' draft.

Show how the above transactions should appear in the books of Richard Random and Sons.

The Consignment Account might show the following:—

CONSIGNMENT ACCOUNT

1904.			£	s.	d.	1904.			£	s.	d.
Sept.	1	To goods . .	500	0	0	Oct.	28	By acceptance, net proceeds	425	0	0
		„ freight . .	60	0	0			„ stock . .	280	0	0
		„ insurance .	18	0	0						
Oct.	30	„ Profit and Loss A/c .	127	0	0						
			£705	0	0				£705	0	0
		To stock from above . .	280	0	0	Nov.	2	By acceptance, net proceeds .	302	0	0
		„ Profit and Loss A/c .	22	0	0						
			£302	0	0				£302	0	0

Or as an alternative—

CONSIGNMENT ACCOUNT

1904.			£	s.	d.	1904.			£	s.	d.
Sept.	1	To goods . .	500	0	0	Oct.	28	By A/c Sales, P. Gold . .	460	0	0
		„ freight . .	60	0	0	Nov.	2	„ A/c. Sales, P. Gold . .	320	0	0
		„ insurance . .	18	0	0						
Oct.	28	„ expenses and commission	35	0	0						
Nov.	2	„ expenses and commission	18	0	0						
		„ Profit and Loss A/c .	149	0	0						
			£780	0	0				£780	0	0

P. GOLD

1904.			£	s.	d.	1904.			£	s.	d.
Oct.	28	To A/c Sales .	460	0	0	Oct.	28	By expenses and commission	35	0	0
Nov.	2	„ A/c Sales .	320	0	0	„	28	„ bill . . .	425	0	0
						Nov.	2	„ expenses and commission	18	0	0
						„	2	„ bill . . .	302	0	0
			£780	0	0				£780	0	0

If, however, frequent consignments are made, and as is usually the case, drafts drawn on account of the shipment to enable the consignor to negotiate the bills, a Current Account would be kept for the agent in which interest debits and credits would be made on the various items.

Example

CURRENT ACCOUNT

Brown and Co., Manchester, in Account with Messrs. Dovar and Co., Bombay

			Capital. £	s.	d.	Days.	Numbers.				Capital. £	s.	d.	Days.	Numbers.
Jan.	1	To Account Sales . . .	340	0	0	180	612	May	1	By acceptance . . .	200	0	0	60	120
Feb.	6	,, ,, . . .	430	0	0	144	619	May	15	,, ,, . . .	140	0	0	46	64
Mar.	8	,, ,, . . .	215	0	0	114	245	June	20	,, ,, . . .	500	0	0	10	50
Mar.	8	,, interest on 1242 Nos.						June	30	,, ,, . . .	145	0	0		
		at 5°/o per annum .	17	0	3					,, balance of Nos. . .					1242
										,, balance	17	0	3		
			£1002	0	3		1476				£1002	0	3		1476

Formula for calculation of Interest:—

$$\frac{1242 \times 5}{365} = \frac{1242}{73} = £17{\cdot}014 = £17\ 0s.\ 3d.$$

Example

ROSE WATER AND CO., CONSIGNMENT ACCOUNT, per *Surdinia*

PERFUMERY

Dr. Cr.

Date			Rupees.	Annas.	Pies.	£	s.	d.	Date			Rupees.	Annas.	Pies.	£	s.	d.
1903.									1903.								
Ap.	21	To Account Sales	745	13	6	49	14	5			By duty paid by agents	904	5	0	60	5	9
May	19	„ „	1402	7	0	93	9	11			„ landing charges . .	11	0	6	0	14	8
June	17	„ „	466	15	9	31	2	7			„ cartage and removal .	15	1	3	1	0	1
July	14	„ „	464	8	0	30	19	4			„ telegrams	13	12	0	0	18	4
Aug.	11	„ „	218	14	6	14	11	10			„ postage	1	3	0	0	1	7
Sept.	22	„ „	115	7	3	7	13	11			„ comn. at 1% on £227 12 0 .	34	2	3	2	3	6
											„ balance (net proceeds)	2434	10	0	162	8	1
		Ex. at 1/4	3414	2	0	£227	12	0			Ex. at 1/4	3414	2	0	£227	12	0
1903		To net proceeds b/down . .				162	8	1	1903 June	14	By bank				187	7	2
		„ Balance down				137	11	11	Sept.	25	„ bank				112	12	10
						£300	0	0							£300	0	0

The balance to be carried to a further consignment, as below.

ROSE WATER AND CO., CONSIGNMENT ACCOUNT, per *Cyprus*

Dr. Cr.

Date			Rupees.	Annas.	Pies.	£	s.	d.
1903 Sept.	25	By balance down . .				137	11	11

Firms with an extensive foreign trade will establish branches abroad, each branch keeping its own accounts, of which summaries of the transactions are forwarded periodically to head office, say in London or Manchester.

In the branch books the Remittance Accounts and Head Office Accounts will show, the one all remittances made to England, and the other the summaries of the business and the stocktaking adjustments, and state the balance of capital due to the head office. Corresponding to this in the London books a Remittance Account and a Branch Account will be kept. Examples, furnished later, will give ready understanding of the branch and head office account keeping.

Agency Accounts.—Very similar to the preceding is the account keeping for agencies, of which the two following instances may serve as illustrations:—

Home Trade Agency in which the agent holds stock for his principal, sells the goods and collects accounts, charging a *Del Credere* commission on the sales for which he guarantees the proceeds. Stock books are kept by the agent giving particulars of receipts and sales of goods, and showing the balance of stock in his warehouse belonging to his principal. Advice sheets are forwarded of sales and receipts, and at fixed times cheques and bills remitted for the latter. In the principal's books the agency is charged with sales and credited with remittances, and the commission charged against a Commission Account; the stock at the agency is considered as forming part of the general stock-in-trade, the amount being shown by the Memorandum Stock Book kept at the head office.

Another instance is that of a *Buying Agency* for an American house, the agents carrying out instructions as to buying, dyeing, finishing, and forwarding of the goods, and settling for the purchases from remittances cabled from the States placed to the agent's credit at the bank.

In this case the head office requests—

(*a*) A statement showing all receipts and payments, and the final balance confirmed by the bankers.

(*b*) An account showing purchases and expenses and the shipments made to the head office and the final stock in Manchester; the balance representing the net cost of the buying agency, viz. £430 3*s*. 9*d*.

(*c*) The balance sheet confirming (*a*) and (*b*).

MESSRS. YANKEE AND CO.,

RECEIPTS AND PAYMENTS ACCOUNT FOR

1905.			£	s.	d.	£	s.	d.
Jan.	1	To cash in bank . . .				128	11	6
Dec.	31	„ amounts received during the year from New York	15,900	0	0			
		„ amounts remitted direct to manufacturers by various bills of exchange	13,151	10	6			
						29,051	10	6
		„ amounts received for sundry cash sales of fents, etc. . . .				16	5	10
						£29,196	7	10

MANCHESTER BRANCH TRADING ACCOUNT AND PROFIT

1905.			£	s.	d.	£	s.	d.
Jan.	1	To stock on hand . . .				137	7	0
Dec.	31	„ purchases	26,916	18	1			
		Less returns . . .	113	6	1			
						26,803	12	0
		„ packing, etc. . . .	231	15	9			
		„ pattern cards . . .	28	16	6			
		„ cables, consul fees, etc.	121	13	4			
						382	5	7
						27,323	4	7
		„ loss from above . .	253	0	2			
		„ salaries and wages . .	658	7	0			
		„ rent, rates, and taxes .	107	7	7			
		„ fixtures	60	3	6			
		„ bank charges . . .	9	16	7			
						£1,088	14	10

MESSRS. YANKEE AND CO., NEW YORK,

			£	s.	d.	£	s.	d.
		Liabilities.						
		To trade creditors . . .	1,498	9	3			
		„ creditors for expenses .	85	15	9			
						1,584	4	11
		„ Yankee and Co., head office, balance, January 1, 1905	106	0	11			
		„ remittances £29,051 10s. 6d.; Less shipments £24,526 3s. 1d.	4,525	7	5			
			4,631	8	4			
		Less loss on trading . .	430	3	9			
						4,201	4	7
						£5,785	9	6

MANCHESTER BRANCH ACCOUNTS
THE YEAR ENDED DECEMBER 31, 1905

1905.			£	s.	d.	£	s.	d.
Jan.	1	By outstanding accounts				159	17	7
Dec.	31	" purchases of goods . .	26,916	18	1			
		Less returns to manufacturers	113	6	1			
			26,803	12	0			
		Less discounts . . .	648	14	6			
			26,154	17	6			
		Less unpaid accounts, December 31, 1905 .	1,498	9	3			
						24,656	8	3
		By packing expenses . .	171	7	3			
		" pattern cards . . .	23	9	3			
		" cables, consul fees, etc.	121	13	4			
						316	9	10
		" branch management expenses—						
		Salaries and wages. .	658	7	0			
		Rent, rates, and taxes .	87	7	8			
		Fixtures.	60	3	6			
						805	18	2
		" balance in bank . .				3,257	14	0
						£29,196	7	10

AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1905

1905.			£	s.	d.	£	s.	d.
Dec.	31	By shipments to New York	24,538	7	9			
		Less returns . . .	12	4	8			
			24,526	3	1			
		" sundry cash sales . .	16	5	10			
						24,542	8	11
		" stock on hand . . .				2,527	15	6
						27,070	4	5
		" loss on trading . . .				253	0	2
						27,323	4	7
		" discounts				646	0	9
		" bank interest . . .				12	10	4
		" net loss on business .				430	3	9
						£1,088	14	10

MANCHESTER BRANCH BALANCE SHEET, DECEMBER 31, 1905

		Assets.	£	s.	d.	£	s.	d.
		By cash in bank . . .				3,257	14	0
		" stock on hand and in hands of bleachers, dyers, etc. . . .				2,527	15	6
						£5,785	9	6

From this preliminary treatment it will be realized that as a business extends, it soon becomes an absolute impossibility for the proprietor to exercise the personal supervision over each section of the business, which was probably the first cause of its satisfactory results and progress, and he must gradually depute more and more of the detail work to others, until the time comes when he is obliged to hand over entire sections of his business to various managers, his own time being fully occupied by general supervision and directions.

It is just at this stage that we have been asked by our client, Mr. Worker, to alter his accounts in such a way that he can see that each of his managers, who have recently been given sole charge of three of his principal departments, is producing satisfactory results. The fourth and smallest he retains himself, but wishes to be assured that the other three do not suffer by reason of allowing a considerable portion of the work to be done by others. He has throughout kept his books on the double entry system, and has asked us to arrange that his present accounts shall be disturbed as little as possible, to allow of the detailed results of each department being ascertained separately. Many of his customers buy from more than one of the departments, and desire their statements, as before, to appear in one account only.

The first point with which we are concerned is that of purchases. The newly appointed departmental managers have full power to deal with their sales and purchases, but before placing any contracts or orders exceeding £100 are instructed to consult Mr. Worker.

With regard to goods inwards, after the quantities are checked by the receiver of the goods and initialled by him, the price and general detail of the invoice is passed by the manager, who also initials it, and then calculations and additions are examined by the office staff and initialled once more, and the invoice, after being passed by Mr. Worker himself, is ready for entry. The Purchases Analysis Book contains the same rulings as before, except that instead of having one column only for the goods it now contains four, headed respectively, "Goods Dept. A," "Goods Dept. B," "Goods Dept. C," and "Goods Dept D." In this way the total goods purchased for each department is ascertained.

The sales also require to be similarly subdivided, and if the circumstances will permit, may be invoiced out, preferably by means of carbon books from each department, and then these sales are entered in a Sales Summary Book with a special ruling to set out—

Consecutive invoice No.	Name.	Description of goods (optional).	Quantity (optional).	Posting folio.	Total amount.	Departments.			
						A	B	C	D
					£ s. d	£ s. d.	£ s. d.	£ s. d.	£ s. d.

The date in this case, where there are numerous transactions every day, would appear at the head of each page or in the body of the page only, though if preferred a special column could be made in the book to record this.

The totals of the sales and purchases would then be posted to the nominal ledger, separate accounts being, of course, used for each department. By analyzing the stock under similar headings it will be easy to ascertain the gross profit for each department, in the same way as the Goods Account or Trading Account gives the gross profit for the entire business.

To ascertain the net profit for each department, it is then necessary to charge the various expenses incurred by each. The method of doing this varies in almost every case, but Mr. Worker's business is a typical merchant's business, and after discussion with him we decide to apportion the expenses on the following basis:—

Rent, rates, taxes, lighting, heating, etc., to be charged on the cubic space occupied by each department, which we find to be A 30 per cent., B 25 per cent., C 20 per cent., D 15 per cent., office and management 10 per cent.

Wages and travellers' salaries and expenses on behalf of any special department are charged against that department, and also all other direct charges which can be divided on that

basis, under which head we include carriage inwards, and, if included in the price of the article, carriage outwards.

Insurance is debited in the same proportion as the estimated average stock, which we arrange shall be treated as A 40 per cent., B 30 per cent., C 10 per cent., D 20 per cent.

Horsekeep and stable expenses cause considerable discussion, but after keeping time accounts for two months which were taken as a fair average this was divided into A 50 per cent., B 10 per cent., C 35 per cent., and D 5 per cent.

Discounts were found to vary in the different departments. All purchases were subject to 4 per cent., but the sales discounts were as follows: A 4 per cent., B and C 2½ per cent., D 3 per cent. These, therefore, were charged against the various departments on their actual sales, any discounts forfeited owing to late payment going to the General Profit and Loss Account.

Bad debts were charged against the various departments incurring the same.

Office expenses and management charges were in this instance debited against the departments in proportion to the turnover, though in many cases this is not fair, as usually one or more sections require, owing to the extra detail involved, or the relatively smaller amount of the transactions, a much greater amount of clerical work proportionately than the others.

Interest on capital was also charged against each department. The estimated amount of capital invested was ascertained by adding the average stock to the average book debts, and deducting the average amount of liabilities owing by each. This figure, therefore, gave the approximate amount invested in each, and interest at 5 per cent. was calculated on the same.

Having at the commencement of the year laid down these general instructions and principles, we were further asked at the end of the period to deal with the figures which had been taken out in the ordinary trial balance of December 31, and to let Mr. Worker know the result of each section and the general result of the whole.

The turnover for the different departments had been as follows: A £100,000, B £80,000, C £20,000, and D £50,000.

The trial balance, after we had made what we considered necessary adjustments during the audit, finally appeared:—

	Dr.	Cr.
	£	£
Department A, gross profit		15,000
" B, " "		8,000
" C, " "		5,000
" D, " "		9,000
Discounts received		8,000
" allowed	8,000	
Debtors (net)	51,000	
Creditors (net)		34,600
Bank		5,000
Stock	36,000	
Fixtures	1,000	
Rent, lighting, etc.	3,000	
Wages, travelling expenses, etc.	19,280	
Insurance	100	
Horsekeep, etc.	1,800	
Carriage	2,100	
Bad debts	320	
Office and management expenses	2,000	
Interest Account	3,000	
Managers' salaries	2,000	
Loan		20,000
Capital		25,000
	£129,600	£129,600

From these figures we prepare the following accounts to show the net profit on each department.

PROFIT AND LOSS ACCOUNT FOR YEAR ENDING DECEMBER 31, 1906

Dr.

		Total.	A	B	C	D
		£	£	£	£	£
Dec. 31	To rent, lighting, etc.[1] .	3,000	900	750	600	450
	„ wages, travelling, etc.	19,280	7,730	3,944	2,486	5,120
	„ insurance	100	40	30	10	20
	„ horsekeep . . .	1,800	900	180	630	90
	„ carriage	2,100	1,000	500	200	400
	„ discounts allowed .	8,000	4,000	2,000	500	1,500
	„ bad debts	320	120	10	130	60
	„ office and management expenses[1] .	2,000	920	736	184	460
	„ Interest Account . .	3,000	1,200	1,100	300	400
	„ departmental managers' salaries . .	2,000	650	550	300	500
	„ balance, being net profit	3,400	940	1,000	260	1,200
		£45,000	18,400	10,800	5,600	10,200

Cr.

		Total.	A	B	C	D
		£	£	£	£	£
Dec. 31	By gross profit A		15,000			
	„ „ B			8,000		
	„ „ C				5,000	
	„ „ D					9,000
	Total	37,000				
	„ Discount. .	8,000	3,400	2,800	600	1,200
		£45,000	18,400	10,800	5,600	10,200

[1] In the division 10°/o of the Rent Account is transferred for purposes of analysis to the Office Expenses Account in accordance with the method of division stated before.

BALANCE SHEET

December 31, 1906

Liabilities.	£	£	*Assets.*	£
Trade creditors (net)		34,600	Fixtures	1,000
Bank overdraft . .		5,000	Stock	36,000
Loan creditor . . .		20,000	Sundry debtors	51,000
A Worker, Capital Account—				
Balance per last Account . .	27,000			
Less drawings .	2,000			
	25,000			
Add profit . .	3,400			
		28,400		
		£88,000		£88,000

When one has to deal with manufacturers' accounts for the purpose of ascertaining the profit or loss on each department the process naturally becomes more complicated, for in addition to the raw materials purchased for each department, and the wages and special expenses, very frequently finished goods ready for sale in one department are used in another department for raw materials.

For example, a chemical manufacturer manufacturing, say, ten separate and distinct chemical products, each of which is treated as a department in itself, will find that many goods which are bought for, or may be manufactured by, one department, are used as raw material in another department.

To treat these departments fairly it is therefore necessary to record these transactions, which may either be dealt with as an ordinary sale by Department A, and a purchase of raw material by Department G, by cross entries through the books; or if such items are of frequent occurrence, a special book will be used to record them, which will set out the department giving and the department receiving, together with the date, and the nominal account in each department which has to be debited or credited respectively.

The price to be charged will usually be laid down by the authorities, the usual principle is that where the goods are not manufactured by the department giving the same, that they are

to be transferred at cost. This often arises in the case of a department which uses very largely a particular raw material, and on account of the quantity used, is able to buy on advantageous terms. If other departments also use this commodity, but in much smaller quantities, they will usually be instructed to buy it from the first department at cost price. Where goods are used by a second department as a raw material which are manufactured by the other, the usual practice is to transfer the said goods at the ordinary selling price, so that a fair profit is allowed to the seller for the goods produced. Care should, however, be exercised, especially just before stocktaking that the selling department shall only transfer sufficient for the immediate requirements of the others; for since stock is always priced at market or cost, whichever is lower, the manufactured article would be taken into stock by its own department at cost, whilst the same goods after transfer would be reckoned at the increased price when held by the others, and might in that way be used to show a fictitious profit for the transferor, whilst it would not affect the transferee in any way, since it would be valued at the price debited to him.

In a manufacturer's business it will be necessary to further subdivide the Purchases Analysis Book. When dealing with a trading concern we saw that one column was usually sufficient for each department for goods bought, but now we have many commodities specially obtained for various sections of the business, which all require separate headings. For instance, each manufacturing department will probably need the following columns—raw material, carriage (this usually being a very important item in a manufacturing concern), packing (where the different portions of the business use varying kinds, qualities, and quantities), etc., in addition to the ordinary expenses columns which are applicable to all businesses.

The wages question here, as elsewhere, must necessarily be put upon a sound basis, varying with the method of payment in vogue for each department. If based upon time, the ordinary processes for dealing with the arrival and departure of the men will be governed by the office; if, however, piece work is the rule, the system of passing the goods must be clearly and distinctly laid down, and the quantities received from each hand or gang will be checked and recorded in the wages sheets for

purpose of payment. In either case the wages books must be prepared in such a way that by means of analysis or classification the wages payable by each department may be distinguished at a glance, and the correct debit to each duly ascertained and treated accordingly in the books.

The question of repairs and depreciation is a subject of importance in manufacturing departments, and a clear and distinct system should be laid down in regard to it. Where each has its own machinery, it is desirable, and usually not difficult, to apportion these charges directly to the section to which they belong. In many places, however, there are arbitrary rules laid down to cover these charges in what are considered fair proportions over each department using machinery.

The same remark applies to fuel or power, though in this case it is hardly ever accurately ascertained for each department; many firms adopting the simple rule of debiting the charge in proportion to the production of each, though one can see at a glance that this is a very rough and ready way of ascertaining what is or is not a proper charge.

Bad debts are also debited to the different manufactures according to the actual amounts lost, whilst the other items, viz. the indirect expenses including rent, rates, taxes, gas, water, office and general expenses, etc., will be charged proportionately over the whole in such a manner as the proprietor thinks fair; for, unfortunately, the departmental managers will hardly ever be persuaded that their special charge is not heavier than facts justify.

However, if these directions are generally followed and applied carefully to each particular business, the main object of showing the manufacturer what each section is earning will be attained satisfactorily.

QUESTIONS AND EXERCISES

93. Give suitable rulings for the Sales Journal of a wholesale business comprising three departments, viz., "Mantles," "Dress Materials," and "Felts." There are two sales ledgers in use, viz. "Town" and "Country," and each ledger is kept upon the self-balancing principle.

94. Give an example of the Profit and Loss Account of a branch shop.

95. Distinguish between profits on purchase and selling price.

96. Give instructions to a client with regard to the accounts required for a branch shop.

97. Briefly describe the method of dealing with the departmental accounts of a manufacturing concern.

98. Give an example of a Consignment Account.

99. What is a Current Account? Give an example.

100. Describe the method of apportioning trade expenses against departments.

101. A wholesale firm has several retail branches which it supplies with goods. The branches regularly pay in all their receipts (through the bank's branches) into the main account, notify same to head office, and send monthly an abstract, showing how much has been paid on Ledger Account, and how much for cash sales, also amount of credit sales and discounts, and total of debtors' balances. State precisely what accounts should be opened in the head office books to register these transactions so far as material for Profit and Loss Accounts, giving short illustrations to show how they should be brought into general agreement in preparation for audit.

102. Messrs. J. Silkstone and Sons, coal merchants, of London, opened a branch business at Maidstone, on January 1, 1903. The trial balance of the books of the Maidstone branch, as on December 31, 1903, was as follows :—

TRIAL BALANCE

December 31, 1903

	£	£
Head Office Adjustment Account		1574
Coal sales		1750
Sundry debtors	640	
Horses, carts, etc.	280	
Salaries, rent, and expenses	620	
Cash in hand	78	
Coal from head office (as invoiced)	1748	
Sundry creditors		42
	£3366	£3366

The stock of coal at Maidstone on December 31, 1903, was valued at £984.

Prepare a Profit and Loss Account showing the result of the working of the Maidstone branch for the year ended December 31, 1903, and draft the entries necessary to incorporate the above figures in the head office books.

CHAPTER XI

BRANCH ACCOUNTS

Foreign Exchange—Foreign Account Keeping—Final Entries in Head Office Accounts.

It is proposed, in this chapter, to deal with the "Wholesale and Retail Trading Company," who, in addition to owning a large central establishment, consisting of their central warehouse and head offices, possess several branch houses with power either to buy or sell for cash or on credit, and some shops who sell for cash only. They are also thinking of opening another house, which will have power to buy and sell, and will also be allowed to have its own banking account and conduct the whole of its separate financial arrangements.

Their present arrangements are as follows: The shops which have power to sell only are supplied from the central warehouse and are debited with these goods at the selling price. The books kept at the shops are: a Petty Cash Book, a Cash Book, a Summary Book, and a Stock Book. The Petty Cash Book will be kept on the imprest system, and all expenses and other outgoings of the shop will be entered in this book. The first entry will be a debit for the cheque received from the head office, and each week or month, according to the arrangement, which depends upon the amount of the cash required, the branch will forward to the head office a statement of its expenditure, and will receive a cheque for that amount from them, which will therefore bring the cash balance back to its original figure. The takings are entered in the Cash Book, and are paid gross into a local bank for the credit of the head office, or in places where this arrangement does not exist are sent direct. The Summary Book is really the ledger account with the head office, and credit is given for all the goods sent to the branch, whilst any returns, allowances for damage, breakages, shorts,

etc., are debited together with the cash takings sent to the head office. Stock is taken periodically, and is entered as the balance of the account in the Summary Book, which should then balance, any difference meaning, of course, that (in the case of a deficiency) so much stock or money has been lost by error or leakage.

The head office records these transactions by having the following accounts in their books for each branch: (1) a Furniture and Fittings Account; (2) a Cash Account for the petty cash; (3) a Goods Account; (4) an Expenses Account, for such expenses as may be paid direct by the head office; and (5) a Profit and Loss Account. The first account will be debited with all the original capital expenditure and all subsequent additions, and is credited with depreciation, which is debited to the branch Profit and Loss Account. The second of these accounts is opened by the debit posting of the cheque for the branch petty cash, and is credited with the totals expended as supplied by the branch return. These items are debited to the branch Expenses Account, either by means of a contra item to the Expenses Account, or by means of a special journal known as a Branch Expenses Book, the form for which is given later in this chapter. The balance of the account represents, of course, the petty cash balance in hand at the branch. The Goods Account is a copy on the opposite sides of the account of the Summary Book kept at the branch, and the balance of the account will represent the stock in hand at the branch at selling price. The Expenses Account will be debited with all the expenditure made from the head office on behalf of the branch, and also with the items transferred from the Petty Cash Summary through the Branch Expenses Book. This account will be closed by half-yearly transfers to the Profit and Loss Account. The materials for the profit and loss figures are obtained from the foregoing accounts as described above, so far as the debits other than goods are concerned. The credit side is made up by means of special books, the principal of which are a Branch Sales Book and a Branch Returns Book. The first of these books records all goods sent to the branches, and like an ordinary transaction of a sale is debited to the Branch Goods Account for the individual branch supplied, and is credited to a "Sales to Branches Account" in monthly totals. The Branch Returns Book is a record of the debit notes sent by the branches, and the monthly

total of this is debited to the "Sales to Branches Account" and credited to the individual "Branch Goods Accounts" in detail. The net amount of the goods supplied to each branch, as ascertained by its goods account, is at the end of the half year credited to the Branch Profit and Loss Account; the contra item to the debit is made up in one of two ways. The first of these is to ascertain the average gross profit made on all goods sold through these retail branches over the ordinary wholesale price, and to debit the Branch Profit and Loss Account with the estimated wholesale price by deducting this average gross profit from the goods they have purchased during the half year, and by debiting the amount so deducted to the "Sales to Branches Account." The stock on hand must also be reduced to the wholesale price by debiting the Profit and Loss Account of the branch with the average profit which has been added to the stock on hand by taking it at selling price, or by dealing only with the goods actually sold, as shown in the example. All this sounds rather complicated to any one who has not had actual experience of this class of business; but if the specimen account for the shop branch is carefully followed, it should be quite easily understood. The second method of dealing with this section of the accounts is to ascertain the actual wholesale price of the goods supplied to each shop, and enter in extra columns added to the Branches Sales Book and the Branches Goods Accounts, by means of which the actual profits added are ascertained and dealt with instead of the estimated average profit as previously explained.

In the specimen accounts dealt with below, it is assumed that the system in vogue is based on the assumption that the warehouse adds 5 per cent. to the cost, to ascertain the ordinary wholesale price, and that 25 per cent. is added to this figure for the retail profit. The items are those required for one of the branches, and for simplicity the entries at the head office are recorded as if only one branch existed.

The transactions are for the half year ended June 30.

		£	s.
Jan. 1	Branch A, which has been fully equipped during the preceding half year, receives this day, goods £300, cash £10, and commences business.		
„ 6	Cash is received from the branch on account of sales . .	50	0
„ „	On the manager's request the expenses cheque is sent for	10	0

		£	s.
Jan. 6	Further goods sent	30	0
„ 7–31	Goods forwarded to Branch A	280	0
„ „	Cash „ „ „	25	0
„ „	Cash received from branch on account of sales	170	0
March 30	Head office pays the rent of Branch A for the quarter ending March 31	40	0
June 30	Head Office pays the rent of Branch A for the quarter ending June 30	40	0
„ „	Head Office pays the rates of Branch A for the half-year ending June 30	18	0
Feb. 1 to June 30	During these dates the branch has received goods . . .	2015	0
	„ „ „ „ cash . . .	200	0
	And has remitted on account of sales	2140	10
June 30	There was at the branch at date, cash	5	0
	Goods at selling price	262	10

The goods supplied to the branch were purchased from sundry creditors by the head office for £2000, to which was added 5 per cent. (equals £100) for the latter and 25 per cent. (equals £525) for the branch.

Branch A, Goods Account

Dr. Cr.

1906		£	s.	1906		£	s.
Jan. 1	To goods. Branch sales 1	300	0	Jan. 6	By Cash . . .	50	0
				„ 7–31	„ „ . . .	170	0
„ 6	„ „ „ 5	30	0	Feb. 1 to June 30	„ „ . . .	2140	10
„ 8–31	„ „ . . .	280	0				
Feb. 1 to June 30	„ . . .	2015	0	June 30	„ stock carried down . .	262	10
				„	By Branch Profit and Loss Account, being loss of stock on actual stocktaking	2	0
		£2625	0			£2625	0
July 1	To balance . . .	262	10				

The debits of the above account are posted in detail from the Branch Sales Book, the totals of the book being credited to "Sales to Branches Account." The first three credit items come from the Cash Book, the fourth from the actual stock sheets, whilst the fifth is the difference between the two sides.

BRANCH A PETTY CASH ACCOUNT

Dr.		£		Cr.	£
1906		£	1906		£
Jan. 1	To cash	10	Jan. 6	By Branch Expenses Account	10
„ 6	„	10	Jan. 7 to June 30	By Branch Expenses Account. . . .	230
„ 7–31	„	25		„ Balance	5
Feb. 1 to June 30	„	200			
		£245			£245
July 1—To balance		5			

The debits are posted from the Cash Book in the ordinary way, whilst the credit is transferred from the Branch Expenses Book, a form of which appears later.

BRANCH A EXPENSES ACCOUNT

1906		£	1906		£
March 31.	To cash—Rent to date	40	June 30.	By Branch Profit and Loss Account . . .	338
June 30.	To cash—Rent to date	40			
„	To cash—Rates to date	18			
„	Branch Petty Cash Account (per Branch Expenses Book)	240			
		£338			£338

BRANCH A PROFIT AND LOSS ACCOUNT

		£	s.			£	s.	£	s.
June 30	To purchases . . .	1890	0	June 30	By sales per the Goods Account	2625	0		
	„ expenses per Branch "A" Expenses Account— Rent . . £80, Rates . . 18, Wages, etc. 240	338	0		Less stock	262	10	2362	10
	„ Goods Account for loss of stock .	2	0						
	„ profit carried to General Profit and Loss Account	132	10						
		£2362	10					£2362	10

The figure credited to Goods Account is taken from the Branch Goods Account, and the contra is the £1890 on the other side of the same account, being the estimated cost to the branch, and the balance is debited to the "Sales to Branches Account" to write back the overcharge made at head office in order to check the branch takings.

Dr. PURCHASES ACCOUNT (Head Office) Cr.

	£		£
Jan. 1 to June 30. To goods . Being cost of goods bought by head office and sent to Branch "A."	2000	June 30. By Profit and Loss Account	2000

SALES TO BRANCHES ACCOUNT

	£	s.		£
June 30. To Branch A Profit and Loss Account . .	472	10	Jan. 1 to June 30. By goods. Branch Sales Book . . .	2625
To Suspense Account . . .	62	10		
To Profit and Loss Account . .	2090	0		
	£2625	0		£2625

The figure credited to Suspense Account is the profit charged on goods sent to the branch at retail selling price, but not yet sold, viz. £262 10*s*. This amount is made up by the following calculation: Goods costing the head office £100 have 5 per cent. added for the head office profit; it therefore equals £105, to which is added 25 per cent. for the branch profit, equals £26 5*s*.—total £131 5*s*. It therefore becomes a simple proportion, based on the equation that if £131 5*s*. selling price equals £100 cost price, then £262 10*s*. selling price (stock at Branch A) will equal £200 cost, the difference £62 10*s*. being credited as stated to a Suspense Account, so that no profit shall be taken on unsold goods.

SUSPENSE ACCOUNT

	June 30. By Sales to Branches Account . . . £62 10*s*.

This account is closed on July 1 by transferring it back to the new "Sales to Branches Account."

Dr.	HEAD OFFICE PROFIT AND LOSS ACCOUNT		Cr.
	£		£
June 30. To purchases . . .	2000	June 30. By Sales to Branches Account	2090

Stock will stand in the balance sheet as £200, being the balance of Branch A Goods Account, less the credit balance of unearned profit on the stock as shown by the Suspense Account.

These figures for the sake of simplicity are drawn as if no other transactions took place at the head office but those which relate to Branch A, and the sundry creditors and cash are omitted, as they call for no special comment. This is what is known as the multiple shop system, and is applicable particularly to all retail businesses which do not make their own purchases.

The Branch Expenses Book, if used, might take the following form:—

BRANCH A

	Posting folio.	Total.			Wages.			Carriage.			Postage and stationery.			Travelling.			Sundries.			
		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.
Jan. 6 „ 13 etc. etc.	(To credit of Cash Account Branch "A")	10	0	0	5	6	0	2	15	0		9	0	1	0	0	Paper for packing		10	0
		240	0	0	136	15	0	82	3	0	3	2	0	3	10	0	Per analysis	14	10	0

Credit these totals to Branch A Expenses Account, to amalgamate with expenses paid by head office.

In dealing with any question of this sort, whether in practice or in an examination, it must be remembered that adding 25 per cent. to the purchase price is not the same as deducting 25 per cent. from the selling price when the cost price of stock is required. Obvious as this seems, it is surprising how often it is overlooked in the hurry of an "exam."

We now come to deal with those branches which, though they buy independently of the head office and sell on credit, yet do not deal with any cash other than for small cash sales and their own current expenses. These need very little special bookkeeping. Stock and expenses may be kept in a similar manner to that described above, and returns are made of the

sales and purchases which are made on credit, and the ordinary accounts will be kept at head office of these items.

Finally, in this chapter we have to consider how to advise our clients with regard to the new branch they propose to establish which is to conduct its own business in every way but for the general supervision from the head office.

The first point is to have a good office staff capable of dealing fully with all ordinary matters of account, and this has been already arranged. The instructions we give relate only to the special work caused by the branch.

We advise the keeping of special accounts for goods bought or sold between this branch and the other branches, or the head office, as if, in fact, they were ordinary outside customers. The money passing between the branch and head office means another account if numerous items occur, though, this is not necessary, for the entire transactions may be worked through the Head Office Adjustment Account in the Branch Books, and the Branch Z Adjustment Account kept in the head office books.

This account records any item for which no other contra exists at the branch, and exactly how it is made up will depend upon where the branch authority begins. If, for instance, the head office before the branch has started has furnished or fitted up the place, and desires that all the accounts should be kept at the branch, the opening entry will be a debit to Furniture and Fittings and a credit to the Head Office Account in the books of the branch. If the cash transactions passing between them are few in number the next entry will be a debit in the Cash Book posted to this account for the opening cheque sent by head office, and so on.

In the mean time full accounts are kept at the branch for all transactions, needless to say, by double entry, Personal and Impersonal Accounts both being kept, and at the end of the half-year the branch prepares its Profit and Loss Account in the ordinary way, transferring first the balance of the Head Office Goods Account and any other accounts kept between the two to the Adjustment Account. To this account is also transferred the balance of the Profit and Loss Account, and a Balance Sheet is prepared showing the balance of the Head Office Account as a liability.

Copies of the Profit and Loss Account, Balance Sheet, and Adjustment Account are then sent to the head office to be dealt with there. At the head office a Branch Adjustment Account is kept to correspond with the similar account at the branch, and on receipt of the final accounts from the branch the two Adjustment Accounts are compared, and any difference is looked into, and if due to goods or cash in transit a suspense is created and the two sets of accounts are then ready for amalgamation by striking out the balances shown by each Adjustment Account and adding the various figures of assets and liabilities together.

The following is the Balance Sheet and Adjustment Account sent from the branch on June 30:—

HEAD OFFICE ADJUSTMENT ACCOUNT

Dr.	£		Cr.	£
June 30. To balance	5000	Jan. 1.	By furniture and fittings	500
		„	„ cash	1700
		„ 31	„ „	800
		Mar. 15	„ „	300
		„ 31	„ „	100
		May 15	„ „	250
		June 30	„ balance of Goods Account . . .	980
		„	„ Profit and Loss Account . . .	370
	£5000			5000
		July 1	„ Balance . . .	£5000

BALANCE SHEET, BRANCH Z, JUNE 30

Dr. *Liabilities.*	£	*Assets.* Cr.	£	£
To Sundry creditors	655	By Furniture	500	
„ Head office	5000	Less depreciation .	25	
				475
		„ Stock		3520
		„ Book debts	1640	
		Less reserve for discounts . . .	41	
				1599
		„ Bank		61
	£5655			£5655

The final trial balance at head office after closing the nominal accounts appeared as follows:—

	Dr.	Cr.
	£	£
Sundry debtors	3,800	
Reserve for discount on same		90
" " bad debts		200
Creditors		1,820
Reserve for discounts	40	
Stock	3,250	
Branch Z Adjustment Account	5,055	
Furniture	1,280	
Bank	620	
Profit and Loss Account		1,935
Capital		10,000
	£14,045	£14,045

The difference in the Adjustment Account proved to be a lot of goods valued at £55 sent from the head office on June 29, which had not been received until July 3 at the branch. This item had therefore to be added to stock on hand in the combined balance sheet which is now prepared.

Balance Sheet, June 30

Dr. *Liabilities.*			*Assets.*		Cr.
	£	£		£	£
To Creditors	2,475		By Furniture		1,755
Less reserve for discount	40		,, Stock		6,825
		2,435	,, Book debts	5,440	
,, Profit and Loss Account		1,935	Less reserves for discount and bad debts	331	
,, Capital		10,000			5,109
			,, Bank		681
		£14,370			£14,370

On the principle that a business which is not progressing is losing ground, the "Wholesale and Retail Trading Company" very shortly after opening the Z branch decided to start a branch in Paris, and wished the general conduct of the business to be on similar lines. They also asked that we would make any adjustments we considered necessary in the books, and explain the method of dealing with Foreign Exchange in general.

Of course the question of variation in the rate of exchange is comparatively trifling between the two countries, each having a gold standard, because it stands to reason that no one will pay

more in Paris, for instance, for a draft on London than it would cost to forward the actual specie properly insured. Where, however, the other country has a silver or a paper currency this variation immediately assumes considerable importance, since the price of silver varies continually, and apart from the question of the demand for drafts there is the intrinsic value of the silver to take into account and convert into English gold in the first place. Whilst, where a paper currency is used a still lower figure is given for it, because in this case it is uncertain when such paper will be converted into gold or silver, and therefore capable of being used outside the country of issue.

The next point to consider is the law of the land in which you propose to open your branch with regard to accounts. Most foreign countries have some regulations as to what books must be kept, and the manner of recording the transactions. In France, for instance, the law requires that a summary of all transactions shall be entered through the Journal, which therefore becomes the posting medium for every transaction. This book has in the first instance to be produced to a public official, who examines it to see that it is duly paged, none missing, etc., and then stamps it as correct, and anything requiring legal proceedings, in which accounts are concerned, must be proved from the Journals with the official *visa*.

Though naturally this considerably adds to the work of a bookkeeper when all items go through the Journal, it may be a help to balancing the Ledger. The usual method in France is to add the Journal in one total to the year end, and to extract the Ledger Accounts to show the total debit and credit postings of each account, and not the balances only as in England.

TRIAL BALANCE

December 31.

	Total postings.		Balance.	
	Debit.	Credit.	Debit.	Credit.
	Fr.	Fr.	Fr.	Fr.
1. E. Zola	8562·15	8562·15		
2. Balzac	10620·50	9415·25	1205·25	
—	—	—	—	
—	—	—	—	
	Fr.198756·25	Fr.198756·25	Fr.53654·10	Fr.53654·10

The assistance in balancing arises from the fact that in France all the books are officially opened *through the journal* each first of January, and as all postings pass through the Journal, the grand total of the Journal for the year amounts to the same as the total columns of the Ledger as shown in the trial balance; and, therefore, supposing an error of 100 francs existed in the trial balance, it could be seen by comparison with the Journal whether the error arose on the debit or the credit side, or whether both sides were in error.

Remittances may be made either by cheque or by the Paris house buying in Paris a draft payable in London, or by London sending a bill of exchange through in the ordinary way.

In the case of our French branch, it is necessary, of course, to keep the books according to French law, and the Journal therefore becomes an official book through which all our entries must pass. Apart from this, the system of bookkeeping is practically the same as for the English branch, save that it simplifies matters very much if all fixed assets are treated at the head office. Any necessary purchase made by or through the branch being charged to head office as soon as convenient. We are first invited to deal with the Branch Accounts, after the June audit is completed. At that time the amount to the debit of "Paris Branch Account" is £1197 2*s.* 9*d.*, which inquiry at Paris shows to be the difference between the assets, viz. fittings, etc., £300, stock £1471 3*s.* 2*d.*, and the liabilities in France £574 5*s.*, and we are informed all is ready to commence trading forthwith.

Fixed Assets.—In regard to the fixed asset of £300, we should suggest its being transferred at once to the head office books, at the actual rate ruling at the time of purchase. Although some authorities advise the retention of the fixed assets in the branch books, it seems preferable, having regard to the fluctuations of exchange and the charging of depreciation, to treat this class of expenditure in the manner set out above; as being a simple, and, at the same time, an accurate method of dealing with capital expenditure on branch houses.

In our company's transactions at June 30, the rate of exchange was 25 francs 20 centimes to each pound sterling. On December 31 the rate was 25·12 francs, whilst for the six months the average had been 25·15 francs. During the half

year goods had been sent out from the head office amounting to £1293 1*s.* 9*d.*, and remittances had been received from the branch on account of the same to the extent of £800. These remittances as and when received are credited to a special account, which sets out the value of the remittance both in francs and pounds, and is transferred to the Branch Account only at the half year end.

There are still two classes of items not yet dealt with at the branch, one of which is the floating assets, and the other the profit and loss items for the period. The first of these is converted into sterling at the rate ruling on the day on which the Balance Sheet is made up, since if the branch were to be closed the floating assets must be turned into cash, and the local liabilities (that is those payable in francs) deducted and the balance in hand remitted, and such remittance would, of course, be at the rate ruling on that day. The profit and loss items are turned into currency at the average rate ruling for the period, since they were transactions covering the entire period.

On December 31 the French books were therefore duly closed and a Profit and Loss Account taken out, which showed a profit of 6044 francs, which converted into sterling at the average rate of exchange amounted to £240 6*s.* 3*d.*

The French trial balance and a copy of their Profit and Loss Account were then sent across to England, and were there converted into sterling on the lines which have been already laid down. The trial balance appeared as follows:—

PARIS TRIAL BALANCE

December 31

	Dr.	Cr.	Rate of Conversion.	Dr.			Cr.		
	Fr.	Fr.	Fr.	£	*s.*	*d.*	£	*s.*	*d.*
Sundry debtors	26415		25·12 (Dec. 31) .	1051	11	0			
Stock . . .	31840		25·12 (Dec. 31) .	1267	10	4			
Remittance Account. . .	20121		Actual realization	800	0	0			
Profit and Loss Account . .		6044	25·15 (average) .				240	6	3
Creditors . .		18332	25·12 (Dec. 31) .				729	15	6
Head office . .		55084	Actual . . .				2190	4	6
Cash in hand .	1084		25·12 (Dec. 31) .	43	3	0			
	Fr.79460	Fr.79460		£3162	4	4	£3160	6	3

Difference in sterling trial balance due to the conversion of the currency trial balance at varying rates (excess debit) . . . . £1 18*s.* 1*d.*

PARIS BRANCH,

Dr.

		£	s.	d.
July 1	To balance at date	1197	2	9
Dec. 31	„ goods sent to Paris during half-year . .	1293	1	9
„	„ Profit and Loss Account, being profit at branch subject to depreciation of fixtures	240	6	3
„	„ profit on exchange	1	18	1
		£2732	8	10
„	„ balance	1632	8	10

FINAL TRIAL BALANCE,

Dr.

	Head office.			Paris.			Z		
	£	s.	d.	£	s.	d.	£	s.	d.
Debtors	4,821	0	0	1051	11	0	1629	0	0
Stock	3,142	0	0	1267	10	4	2914	0	0
Branch Z	4,840	0	0	—	—	—	—	—	—
Paris	1,632	8	10	—	—	—	—	—	—
Furniture	1,216	0	0	—	—	—	451	5	0
Bank	310	0	0	43	3	0	496	0	0
Paris furniture . . .	285	0	0	—	—	—	—	—	—
	£15,746	8	10	2362	4	4	5490	5	0

BALANCE SHEET,

	£	s.	d.
Capital	10,000	0	0
Creditors	5,020	0	6
Profit and Loss Account	1,896	8	10
	£16,916	9	4

ACCOUNT

Cr.

		£	s.	d.
July 1	By Furniture Account written out of French books	300	0	0
Dec. 31	" Remittance Account	800	0	0
"	" Balance	1632	8	10
		£2732	8	10

DECEMBER 31

Cr.

	Head office.			Paris.			Z		
	£	s.	d.	£	s.	d.	£	s.	d.
Creditors	3,640	0	0	729	15	6	650	5	0
Head office	—	—	—	1632	8	10	4840	0	0
Bad debts reserve	210	0	0	—	—	—	—	—	—
Capital	10,000	0	0	—	—	—	—	—	—
Paris Profit and Loss Account	225	6	3	—	—	—	—	—	—
Z Profit and Loss A/c	672	0	0	—	—	—	—	—	—
General Profit and Loss Account	999	2	7	—	—	—	—	—	—
	£15,746	8	10	2362	4	4	5490	5	0

DECEMBER 31

	£	s.	d.	£	s.	d.
Furniture				1,952	5	0
Stock				7,323	10	4
Debtors	7001	11	0			
Less reserve	210	0	0			
				6,791	11	0
Bank				849	3	0
				£16,916	9	4

This amount is credited to the "Profit and Loss on Exchange" at the time the French figures are incorporated with the English, and so the balance of the latter is preserved.

The head office then entered the Profit and Loss Account into their books, crediting the General Account, and debiting the Paris branch with the profit. The accounts were then closed in the usual way and amalgamated with the branch Balance Sheets. It must, of course, be remembered that the Paris profit is subject to depreciation of the fixed assets, which are now kept in the head office books only, and that the Paris bookkeeper must transfer the balance of his Profit and Loss and Remittance Accounts to the Head Office Account.

The head office entries for Paris, and the final entries are shown on pp. 174, 175.

Although for simplicity no interest on capital is shown in the above accounts, it must be remembered that the same principle applies here as was described in the treatment of departmental accounts and the interest charged on capital invested in each, and that the profit as shown in the branch books should be debited with the depreciation of the fixed assets, which appear in the head office accounts only, and also for the interest on the money which is sunk in the foreign branch, whether in the form of fixed or floating assets.

The above example shows the working of a foreign branch having full control to buy and sell; but, of course, many cases arise where accounts of such a nature are unnecessary. For instance, the case of a mining company receiving its expenses in full from England, and sending home direct the ore raised. In a case of this sort, all that is necessary is to forward home an Analyzed Cash Account showing the expenses and such statistical returns as may be required by the authorities. In such a case the question of foreign exchange will scarcely enter into the matter, the ore will be sold and treated in English currency entirely, and the payments made in the foreign country will, of course, be converted into sterling at a rate to cover the remittances from England on the general lines laid down earlier in the chapter.

QUESTIONS AND EXERCISES

103. Show how you would combine the Balance Sheets and interchanging accounts of a concern having separate trading centres in London, Liverpool, and Manchester.

104. Explain in detail how you would deal in an English merchant's books with fluctuations in exchange resulting from transactions with his branch establishment in Bombay.

105. The following is the trial balance of the Calcutta branch of a London house on December 31, 1905:—

	Dr.	Cr.
	Rs.	Rs.
Stock on hand, December 31, 1904	5,000	
Purchases	30,000	
Sales		45,000
Sundry debtors	10,000	
Sundry creditors		7,000
Bills receivable	3,000	
Bills payable		2,000
Wages and salaries	2,000	
Rent, rates, and insurance	1,500	
General expenses	600	
Fixtures and furniture	2,000	
Cash at bank	13,000	
Cash in hand	400	
London office		13,500
	67,500	67,500

Rate of exchange, December 31, 1905, 16.
Average rate for 1905, 15.
Rate December 31, 1904, 14½.
Calcutta Branch Account in London books, £896 10*s.* 6*d.*

Convert the above figures into sterling for inclusion in head office books, and state the principles which guide you in doing so.

106. In the case of an English registered company, having works situated in a foreign country, where the rate of exchange is subject to violent fluctuation, what is the correct rate to adopt in the case of :—

(*a*) Fixed assets at the works.
(*b*) Any additions thereto during the year.
(*c*) Revenue items.

In the audit of the accounts of such a company where a large figure appeared therein in respect of "difference in exchange," what steps would you take (if any) in regard to the verification thereof?

107. A London company, owning a mine in India, receives monthly cash statements, in Indian currency, from its local manager. How would you pass these returns into the company's books, and effect the necessary conversion into sterling? Illustrate your answer by means of rulings of the book or books you would suggest, and enter therein six imaginary transactions.

108. Messrs. Knox and Hammer, of Manchester, opened a branch house in

Barcelona, to which place Mr. Hammer proceeded as managing partner, with a salary of £250 per annum, and two-thirds of the net profit of the Barcelona trading, and one-third of the Manchester profit. Manchester supplied Barcelona with cash £1000, which was repaid during the twelve months' trading ending December 31, 1900. Manchester also kept the Barcelona house supplied with goods. At this date, the affairs of the Barcelona business stood as follows: Sundry creditors, £530; stock-in-trade, £900; book debts, £1943; balance in bank, £380; bills payable, £183; premises, fixtures, etc., £980; profit, £600 (after charging Mr. Hammer's salary). Make up the Barcelona Balance Sheet at this date, including the liability to Manchester on Goods Account.

CHAPTER XII

THE ACCOUNTS OF INSTITUTIONS AND SOCIETIES

Receipts and Payments Accounts—Income and Expenditure Accounts—Balance Sheets—Fees and Subscription Registers—Tramways' Revenue Account with Percentages of Charges.

In the presentation of the Accounts of Institutions and Societies, we find considerable variety of form, and often uncertainty as to the right method of treatment. One placed before us is as follows:—

Income and Expenditure Account

Dr. *September* 1, 1904, to *August* 31, 1905 Cr.

		£	s.	d.			£	s.	d.
1904.					1905.				
Sept. 1.	To balance in hand . . .	22	10	0	Aug. 31.	By advertising .	14	7	6
1905.						„ rent, rates, etc. . . .	50	2	6
Aug. 31	To fees, 1st term	325	0	0		„ cleaning . .	33	0	9
	„ 2nd „	228	10	0		„ salaries . .	623	12	10
	„ 3rd „	295	7	6		„ stationery .	65	10	0
	„ subscriptions	27	7	6		„ school exes.	31	2	6
	„ stationery .	90	3	6			817	16	1
	„ commission .		12	0		„ balance . .	171	14	5
		£989	10	6			£989	10	6

The impression meant to be conveyed by the above statement is, that as at the commencement there was only a balance of cash of £22 10*s.* 0*d.*, and at the end a bank balance of £171 14*s.* 5*d.*, the increase of £149 4*s.* 5*d.* was the profit for the year. This difference we find is due to the fact that the first term's fees include the arrears from July, 1904, and the third term's fees include some paid in advance.

The statement is merely a Receipts and Payments Account, *i.e.* a summarized statement of the year's cash tranactions, commencing with the balance in hand from the previous period, and showing the cash in hand at the end.

On making inquiries, we find that included in the amounts are receipts and payments which have reference to the previous

and next year's operations, and that several liabilities belonging to the current twelve months are not included, as Rent, and Booksellers' Accounts. The account, therefore, is not an Income and Expenditure Account, but one of receipts and payments, and should be headed so. The confusion has arisen owing to the idea with some officials that cash received is income, and cash paid expenditure. What those concerned wish to know is whether the year's operations have resulted in a gain or a loss. This it is the object of the Income and Expenditure Account to show, and therefore that is the form of account we would present (see opposite page).

This account, which also furnishes the figures of the preceding year for the purposes of comparison, includes all income belonging to the period under review, whether received or not, and also includes expenditure or charges belonging to the period, whether paid or not; the balance representing the profit or loss on the year's operations.

It will be observed that it corresponds in form to the Profit and Loss Account of a trader, and to the Revenue Account of a non-trading concern; charges against profit being entered on the debit side, and profits on the credit side; whereas in Receipts and Payments Account the items are placed as in a Cash Book, receipts on the debit, and payments on the credit sides. A columnar Cash Book will be used, providing separate columns for the separate heads of income and expenditure, and at the end of the period adjustments will be made by the inclusion of outstanding accounts and liabilities, such adjustments being transferred as balances to the next period (see p. 182).

Subsidiary to the Cash Book, the Fees Book would be kept, showing the accounts due for each term and payment of same.

FEES REGISTER

December, 1906

FIRST TERM

Name.	Fees.	Extras.	Stationery.	Total.	Date received.	No. of receipt.

Same for second and third terms.

INCOME AND EXPENDITURE ACCOUNT

For the year ended August 31, 1905

Dr.

	1903–1904. £	s.	d.	1904–1905. £	s.	d.
Advertising	20	15	6	20	7	6
Rent, rates, etc.	64	10	11	71	8	5
Cleaning	31	8	5	36	15	0
Preliminary expenses	7	19	0	7	19	0
Salaries	620	14	0	623	12	10
School expenses	44	13	9	53	4	2
Bank charges	23	19	0	24	14	0
Bad debts	10	10	9	10	0	0
Legal charges	—	—	—	9	11	6
Balance, being profit	—	—	—	25	9	5
	£824	11	4	£883	1	10

Cr.

Term.	1903–1904. £	s.	d.	1904–1905. £	s.	d.
December—						
Fees	251	2	0	251	10	0
Stationery	25	18	8	31	8	9
Games subscriptions	8	0	0	8	0	0
Total for term	£285	0	8	£290	18	9
April—						
Fees	230	16	6	274	16	9
Stationery	22	11	3	24	18	4
Games subscriptions	7	12	6	8	17	6
Total for term	£261	0	3	£308	12	7
July—						
Fees	258	13	0	287	15	9
Stationery	15	12	8	11	9	7
Games subscriptions	8	15	0	9	2	6
Total for term	£283	0	8	£308	7	10
Summary for year—						
Fees	740	11	6	814	2	6
Profit on stationery	20	5	11	12	7	4
Games subscriptions	24	7	6	26	0	0
Commissions		5	10		12	0
Rent	12	10	0	30	0	0
Balance being loss	26	10	7	—	—	—
	£824	11	4	£883	1	10
Stationery account—						
Sales	64	2	7	67	16	8
Cost	43	16	8	55	9	4
Profit	£20	5	11	£12	7	4

Societies deriving most of their income from subscriptions would keep a Subscription Register, arranged alphabetically for reference, and for checking the published list. As the subscribers generally continue their subscriptions for a number of years, the register is ruled to give the particulars for, say, five years.

SUBSCRIPTION REGISTER

WAREHOUSEMEN AND CLERKS' SOCIETY

	1906.		1907.		1908.		1909.		1910.	
Name and Address.	Amt.	Date received.	Amt.	Date received.	Amt.	Date received.	Amt.	Date received.	Amt.	Date received.

COLUMNAR CASH BOOK FOR SOCIETY

Cr.

Date.		Name.	Voucher number.	Total.	Advertising.	Rent, rates, etc.	Salaries.	General expenses.	Printing, stationery, etc.
July to June	1 30	By sundry payments (detailed).							
		Add: Outstanding charges, June 30, 1907 (detailed).							
		Deduct: Outstanding charges, July 1, 1906.							
		Deduct payments in advance.							
		Net expenditure for the year.							

Another form of presenting the accounts of the various voluntary societies, in one of which many of our readers may take an active part, it may be as treasurer or secretary, is shown by the financial statement of a dramatic society given on pp. 184, 185. Here we have a good arrangement of the receipts and payments with the cash balances adjusted at the end. The short Revenue Account, in which the outstanding accounts and the net surplus of the season are shown, completes the accounts, which admirably illustrate the difference in form and in the information given by a Receipts and Payments Account, and a Revenue Account.

An excellent example of the accounts of a society is furnished by those of the Council of the Institute of Chartered Accountants, of which the account given on p. 186 is an abridged copy.

The Revenue Account, abridged, of the Tramways Department of the West Ham Corporation (see p. 187) supplies the committee with the useful information of an analysis of cost and of income, and is an admirable example of such accounts.

In regard to the annual accounts of hospitals, the form given on p. 188 is an outline of the one prescribed for hospitals participating in the Hospital Saturday and Sunday Funds, from which it will be noticed that income and expenditure items are entered on the same sides as receipts and payments.

Societies and institutions derive much of their income from trust moneys and other funds, upon which the extent of their operations are largely dependent. It is therefore essential that a balance sheet should be presented to the members and subscribers to show the various investments and assets and the net accumulation of funds, to which would be transferred the balance of Income and Expenditure Account of the year.

As examples we give (on p. 189) the Balance Sheet of the Society of Accountants and Auditors (Incorporated), and (on pp. 190, 191) the 1905 accounts of the Chartered Institute of Secretaries.

THE ORPHEUS AMATEUR

Dr. ACCOUNTS FOR

	Receipts.	£	s.	d.	£	s.	d.
To	*Subscriptions—*						
	President and Vice-Presidents. . . .	15	15	0			
	Members	20	0	0			
					35	15	0
„	*Performances—*						
	Sale of tickets—"H.M.S. Pinafore"— (s. d. / £ s. d.)						
	620 { 50 at 7 6 . . 18 15 0						
	120 at 5 0 . . 30 0 0						
	200 at 2 6 . . 25 0 0						
	250 at 1 0 . . 12 10 0						
		86	5	0			
	Sale of tickets—"The New Boy"—						
	672 { 44 at 7 6 . . 16 10 0						
	86 at 5 0 . . 21 10 0						
	197 at 2 6 . . 24 12 6						
	345 at 1 0 . . 17 5 0						
	79 17 6						
	Sale of refreshments . . . 18 10 0						
		98	7	6			
					184	12	6
„	*Sundries—*						
	Sale of costumes	10	4	6			
	„ music	15	18	4			
	„ refreshments (unsold at performances)	1	4	8			
	„ programmes		5	6			
	Members' fines		5	0			
					27	18	0
	Total receipts on account of season 1903–4 .				248	5	6
	Balance—cash in hand, season 1902–3				15	0	0
					£263	5	6

REVENUE

	Expenditure.	£	s	d.	£	s.	d.
To	Payments				212	2	2
„	Sundry creditors—						
	Blue Danube String Band	15	15	0			
	Outstanding accounts for refreshments, etc.	19	10	0			
					35	5	0
„	Balance, 1903–4				3	3	10
	(£ s. d.) Cash in hand . 36 12 10						
	Debtors . . . 1 16 0						
	38 8 10						
	Less creditors . 35 5 0						
	3 3 10						
					£250	11	0

Audited and found correct,
I. TICKEM.

DRAMATIC SOCIETY

SEASON 1903–1904 Cr.

	Payments.				£	s.	d.	£	s.	d.
By	*Donations*—									
	"Orpheus" cot at Hospital				50	0	0			
	Lifeboat Fund				15	15	0	65	15	0
"	*Performances*—									
	Hire of scenery				20	0	0			
		£	s.	d.						
	Hire of costumes	5	5	0						
	Purchase of costumes	25	10	0	30	15	0			
	Purchase of music	17	10	0						
	Hire of music	4	0	0	21	10	0			
	Hire of rooms for rehearsals				3	8	0			
	Professionals' fees				15	15	0			
	Train and cab fares				20	0	0			
	Hire of Public Hall				10	10	0	121	13	0
"	*Sundries*—									
	Carriage				8	14	7			
	Advertising and printing				13	0	0			
	Postage and stationery				1	9	4			
	Disbursements				1	10	3	24	14	2
	Total payments on account of season 1903–4							212	2	2
	Payment of outstanding accounts, season 1902–3							14	10	6
	Balance—cash in hand, season 1903–4							36	12	10
								£263	5	6

ACCOUNT

	Income.	£	s.	d.	£	s.	d.
By	Receipts				248	5	6
"	Sundry Debtors—						
	Fee for sub-letting room	1	1	0			
	Members' fines		15	0	1	16	0
	Balance 1902–3—Cash in hand	15	0	0			
	Less sundry creditors	14	10	6		9	6
					£250	11	0

THE INSTITUTE OF CHARTERED ACCOUNTS

INCOME AND EXPENDITURE ACCOUNT

For the Year ended December 31, 1905

Dr. Cr.

Expenditure.	£	s.	d.	£	s.	d.
To expenses of management—						
Housekeeping, fuel, lighting, etc.						
Salaries of secretary, librarian, and clerks, and pensions						
Printing and stationery						
Advertising, etc.						
To rent, rates, taxes, etc.—						
Ground rent						
Rates and taxes						
Insurance						
To depreciation—						
Furniture and fittings						
Library						
To transfer to hall and offices—sinking fund						
„ copies of *The Accountant* for distribution						
„ allowance to the Students' Society of London						
„ allowances to provincial students' societies						
To expenses of examinations—						
Printing, stationery, and sundries						
Advertising						
Examiners' fees						
Prizes						
To branch libraries						
„ share of expenses incurred by the chartered bodies' joint committee						
„ balance carried to accumulated fund— Excess of income over expenditure for the year ended December 31, 1905						

Income.	£	s.	d.	£	s.	d.	£	s.	d.
By entrance fees—									
Fellows at 20 guineas									
Fellows „ 10 „									
Associates „ 10 „									
By certificate fees, subscriptions, etc.—									
Certificate fees—									
Fellows at 5 guineas									
„ „ 3 „									
„ „ 2 „									
„ „ 1½ „									
„ „ 1 guinea									
Associates „ 2 guineas									
„ „ 1 guinea									
Subscriptions—									
Fellows at 2 guineas									
Associates „ 1 guinea									
„ „ ½ „									
By fines on readmission									
By examination fees—									
Preliminary at 2 guineas									
Intermediate „ 2 „									
Final „ 2 „									
Special final „ 2 „									
By fees for certificates of exemption									
By interest on investments									
„ hire of rooms									
„ interest on sums placed on deposit									
„ interest on sinking fund investment									

COUNTY BOROUGH OF WEST HAM

Revenue Account for the Year ended March 31, 1906

Dr.

Expenditure	Average per car mile.	£	s.	d.	£	s.	d.
Electric Cars							
Traffic expenses—							
Superintendence	0·107	929	12	1			
Wages of motormen and conductors	2·525	22,034	4	5			
Wages of other traffic employees	0·261	2,277	10	5			
Cleaning and oiling cars	0·293	2,559	12	0			
Other expenses—sanding, checking, uniforms, licences, etc.	0·449	3,922	6	0			
	3·635				31,723	4	11
General expenses—							
Salaries of general officers and staff	0·135	1,181	9	9			
Rents	0·079	686	13	11			
Rates and taxes	0·159	1,384	4	10			
Compensations	0·202	1,762	18	8			
Other expenses—stationery, water, fire insurance, postage, guarantees, etc.	0·181	1,583	2	7			
	0·756				6,598	9	9
General repairs and maintenance, permanent way, electrical equipment, carts, tools, buildings, etc.	0·729				6,363	11	10
Power expenses—							
Purchase of current for the year	1·589	13,872	17	0			
Add adjustment previous year	0·028	243	0	0			
	1·617				14,115	17	0
Temporary buildings—							
Proportion of cost of car shed	0·375				3,268	0	
Total amount of working expense	7·112				62,069	3	9
Balance carried to Net Revenue Account					38,405	9	11
					£100,474	13	8

Cr.

Income	Average per car mile.	£	s.	d.
Electric Cars				
Lines worked by council—				
Traffic revenue	11·062	96,538	8	8
Sundry revenue, advertising, etc.	0·235	2,051	6	0
	11.297	98,589	14	8
Horse Cars				
Lines not worked by council—				
Traffic and sundry revenue and route mileage		1,793	5	5
Electricity Department				
Acknowledgment at 0·095 per unit, paid by electricity department for use of tramway feeders for private consumers		91	13	7
		£100,474	13	8

*Name of Hospital*____________________

INCOME AND EXPENDITURE FOR THE YEAR ENDING DECEMBER 31, 1906

Income.	Receipts for year ending 1904.	Receipts for year ending 1905.	Receipts for year ending 1906.	Expenditure.	Analysis. Hospital.	Analysis. Nurses.	Expenditure for year ending 1904.	Expenditure for year ending 1905.	Expenditure for year ending 1906.
A. Ordinary—				A. Maintenance—	£ s. d.	£ s. d.			
i. Annual subscriptions . . .				i. Provisions (detailed)					
ii. Donations . . .				ii. Surgery dispensary (detailed) . . .	(In-patients)	(Out-patients)			
Boxes . . .				iii. Domestic (detailed)					
iii. Hospital Sunday Fund . . .				iv. Establishment charges (detailed)					
iv. Hospital Saturday Fund . . .				v. Rent					
v. Invested property:				vi. Salaries (detailed) .					
Dividends . .				vii. Miscellaneous expenses (detailed) .					
Income tax returned . . .				B. Administration—					
Rents . . .				i. Management (detailed)					
vi. Nursing institution				ii. Finance					
vii. Patients' payments									
viii. Other receipts .									
Total ordinary income				Total ordinary expenditure					
B. Extraordinary—				C. Extraordinary—					
Legacies				i. Repairs					
				ii. Building improvements					
				Total extraordinary expenditure . .					

BALANCE SHEET

December 31, 1905

Dr.	£	s.	d.	Cr.	£	s.	d.	£	s.	d.
To sundry creditors	1160	18	7	By cash at Bank of England	546	14	5			
„ subscriptions for 1906 (paid in advance)	22	1	0	„ cash in hand	15	5	9			
„ examination fees (paid in advance) . .	86	2	0					562	0	2
„ Revenue Account—				„ investments (detailed)—						
Balance at December 31, 1904 . . . . . . £6105 11s. 11d.				in consols, corporation stock, and railway stock				6425	4	9
Add surplus for 1905 . £389 4s. 11d.				„ furniture				369	16	5
	6494	16	10	„ library and stock of publications . .				255	17	4
				„ sundry debtors				150	19	9
	£7763	18	5					£7763	18	5

THE CHARTERED

INCOME AND

From September 1, 1904,

Dr.

Expenditure.	£	s.	d.	£	s.	d.
To General Expenses—						
Rent, etc.	819	1	4			
Office charges	125	10	2			
Salaries	789	0	0			
Printing and stationery	148	2	0			
Travelling expenses	19	18	4			
				1901	11	10
„ expenses of examinations				98	10	11
„ journal expenses				454	0	10
„ year book				254	16	4
„ lecture expenses, etc.				181	19	9
„ maintenance of library				16	16	0
„ legal expenses				9	0	0
„ depreciation on furniture and books				50	10	6
„ branches				2	5	0
				2969	11	2
„ balance, being excess of income over expenditure, carried to balance sheet				794	9	3
				£3764	0	5

BALANCE

At August

Dr.

	£	s.	d.	£	s.	d.
To Capital Account—						
Entrance fees	2022	6	0			
Subscriptions compounded	276	3	0			
				2298	9	0
„ prize fund				77	10	0
„ library fund				32	17	6
„ sundry creditors				223	2	5
				2631	18	11
„ Income and Expenditure Account—						
Balance from last account	4703	3	11			
Balance, as above	794	9	3			
				5497	13	2
				£8129	12	1

We have examined the above Accounts with the books and vouchers of the
confirmed by their certificate, and we have verified the investments.

INSTITUTE OF SECRETARIES

EXPENDITURE ACCOUNT

to August 31, 1905

Cr.

Income.	£	s.	d.
By subscriptions received	3326	2	9
„ interest on investments	154	12	11
„ examination fees	283	4	9
	£3764	0	5

SHEET

31, 1905

Cr.

	£	s.	d.	£	s.	d.
By Investments (at cost)—						
£783 L. & N. W. Rly. 3% Perpetual Deb. Stock	863	14	8			
£615 L. & S. W. Rly. 3% Consolidated Deb. Stock	718	15	11			
£400 National War Loan, 2¾% . . .	392	1	0			
£500 New Consolidated Stock, 2½% . .	468	9	10			
£1000 Local Loans, 3%	1002	11	0			
£2124 15*s.* 8*d.* 3% London County Coun. Stock	2000	0	0			
£1075 4*s.* 3*d.* 2¾% Guaranteed Irish Land Stock	1000	0	0			
				6445	12	5
„ furniture, etc. (less depreciation) . . .				375	2	6
„ library books, etc. (less depreciation) . .				105	19	7
„ sundry debtors and debit balances . . .				123	7	0
„ cash—						
At Lloyds Bank	1075	6	5			
In hand	4	4	2			
				1079	10	7
				£8129	12	1

D. SAVAGE, *Treasurer.*

Institute, and we certify them to be correct. The cash balance at the bankers is

BLANK & Co., *Honorary Auditors.*

QUESTIONS AND EXERCISES

109. Distinguish between a Receipts and Payments Account, and an Income and Expenditure Account.

110. Give an example of an Income and Expenditure Account.

111. Name the books you would recommend for the accounts of a society.

112. Outline a form of Annual Accounts for a small hospital.

113. Into what accounts of a charitable institution would you bring legacies, donations, annual subscriptions, and life subscriptions?

114. Frequently so-called Balance Sheets are exhibited, particularly by charitable societies, whereas really they are only Cash Accounts. What further is necessary to make them complete Balance Sheets, showing the true financial position?

115. The following is an abbreviated statement, presented to subscribers and friends by the management of an important public charitable institution, and bearing an auditor's certificate.

Financial Statement

January 1 to *December* 31, 189—

	£	£
To banker's balance	370	
„ receipts, donations, etc.	4,629	
„ "M" building fund	793	
„ £470 Consols sold	460	
To trust funds—		
Receipts	8,828	
Dividends	2,559	
£2,449 Consols sold	2,418	
To dividends on Consols and Turkish 4 per cents.	741	
By grants		4,740
By salaries and general charges		1,677
„ £459 Consols bought		450
By trust funds—		
Grants		2,715
£11,323 Consols bought		11,109
By banker's balance		107
	£20,798	£20,798

There is no other account published, but at the foot of the statement, and independent thereof, and without the signature of the auditor, there is a note stating that there are investments amounting respectively to £100,588 10*s*. 7*d*., and £20,254 6*s*. 2*d*., and that there are unpaid grants amounting to £12,595.

Give your opinion as to this form of account, and state briefly in what way you would have presented the accounts.

CHAPTER XIII

MANUFACTURING

Classes of Accounts—Wages—Stores—Trading or Working Account Depreciation: Method of Treatment in the Accounts—Profit and Loss Account and Costing.

In addition to ordinary trading results, manufacturing companies want to know the result of their labour in the actual processes which they work, and their accounts are accordingly devised for this purpose.

For bookkeeping purposes they may be broadly divided into three classes—businesses manufacturing one special class of goods of such a nature that the cost of each article cannot be ascertained; businesses making several classes of goods, where each class or section is worked on the lines of a separate department; and, thirdly, concerns where the cost of each article made or job completed is ascertained separately. The first of these classes may be said to include most concerns (especially as the second is only an extension of it), and it is to this section that it is proposed to devote this chapter.

The third class alluded to comprises the accounts of such trades as builders, engineers, etc., where, as a rule, the contracts are of considerable size, and frequently goods are purchased exclusively for one particular contract.

The difference between these companies and trading concerns consists, of course, in the fact that the latter buy goods, which they receive into their warehouses and subsequently sell again in the same condition, whilst the former buy what is usually called raw material, which, after passing through certain processes, is sold in an entirely different form. The chances of waste and peculation, therefore, are considerably increased, and to guard against this it is very desirable that as

full a check as possible shall exist on the goods used during the various stages of manufacture.

Another point of difference is the large amount, when compared with the turnover, which has to be paid out as wages. This is paid to many men from whom it is unusual to get a receipt or acknowledgment, and it is therefore necessary to have a thoroughly good system to deal with the matter, especially as the payment is, of course, always made in cash.

Wages

The two principal bases on which wages may be paid are time work and piece work. With regard to the former, most of the large concerns have some mechanical process to record the arrival and departure of the men. This will probably take the form of a registering clock for arrival and departure, though other systems, such as metal checks, etc., are also in vogue. The times are then taken for each man, and the number of hours he has worked are duly entered in the Wage Book, which also contains the rate per hour, or more usually the rate per standard week of so many hours, which varies according to the trade and the part of the country in which the works are situated.

These entries are then carefully checked by another clerk to prevent, as far as possible, collusion, and the calculation of the wages due is then made, extended, and finally checked by another clerk, the total amount is entered in the book, and signed by all who have calculated or checked any portion of the work. A cheque is then drawn for the exact total, and the wages of each employé put into a numbered box or an envelope, ready for payment when the time comes. As all these processes take time, it is usual for wages to be made up, say, to the Wednesday night prior to payment on Saturday, so that the company has always two days' wages in hand.

Where overtime is paid for at an extra rate, such as time and a quarter, time and a half, etc., it is usually entered in a coloured ink, and a special column provides for the allowances made at the end. To avoid writing the names every week, a Wages Book is frequently ruled to deal with several weeks on one opening, or, if this is impracticable, many pages are cut short on the extreme edge to allow the names which appear on the first page to do duty for several weeks.

FORM OF OVERTIME PASS Clock No.

Name______________________________ __________

Sec.____Dept.

Date.	Entered factory.	Commenced work.	Stopped work.	Left factory.

This form of pass to be issued by foremen to employees working overtime, to be lifted by the watchman when employees leave the factory, forwarded to the dept. for foreman's O.K., and to fill in portion of pass marked.* To be returned to the Cost Dept. by 8.30 the same morning.

* The above employee worked ________hrs. overtime, as stated above, on †____________work.

__________________Foreman.

† State whether day, piece, or premium work; also if any exceptions are to be made to the regular, 1¼, 1½, and double time allowance.

Issued by

______________________Foreman.

Lifted by

______________________Watchman.

The following may serve as a simple form of Wages Book where the working is done entirely on the time system :—

Week ending__________

No.	Name.	Thur.	Fri.	Sat.	Mon.	Tues.	Wed.	Overtime allowed.	Total.	Rate.	Amount.	Remarks. Subs., etc.
											£ s. d.	
1.	Jones, John	10	10	4	10	10	10	—	54	40s.	2 0 0	
2.	Smith, Wm.	2 10	2 10	4	10	2 10	2 10	2*	64	36s.	2 2 8	
3.	Robertson, Jas.	—	—	—	10	10	10		30	27s.	0 15 0	

* Extra allowance for overtime at the rate of time and a quarter.

Where "subs" or payments made during the week under special circumstances are allowed and are fairly frequent, it is advisable to have a special column for them after the "amount" column, and then two additional sets of columns, one for "balance to pay" and the last one for remarks.

Piece work, if the work is remunerated on that basis, is certified by the foreman, and checked, or, at any rate, tested in total by other means, and the Wages Book is altered according to the circumstances. It will be found in practice that some workers are dealt with on a time basis even where the piece work is in general use, and in any case the time of "coming and going" is always recorded to see that the men are getting the full work out of the machinery.

Stores

The next question which must be dealt with is that of stores and the method of entering them in the books. Stores Journals, inwards and outwards, and a Stores Ledger are generally used to record these.

The Stores Inwards Journal will be ruled to show the date received, description of stores received, from whom received, quantity, price, and amount, together with reference folios to the "Goods Received Book," if this is kept, and to the Stores Ledger. The Stores Outward or Stores Issued Book varies according to the business and the methods of management. In some cases it simply states date, request number, to whom issued, for what purpose, description, quantity, price, posting folio, amount. The request number is kept for the purpose of recording the consecutive number of the counterfoil slip from the book given to each foreman. These slips serve the double purpose of being at once the receipt for the storekeeper and are also the vouchers against the foreman. For, if the system is satisfactorily carried out, the stores used by the various foremen will be extracted and compared with each other, and also with what is considered the standard for the class of work such foreman may be engaged upon. The book may have special columns to deal with different departments or, as shown in the next chapter, to deal with the different jobs on the works in special businesses of the description dealt with in that chapter.

We next come to the Stores Ledger, which, as its name implies, is simply a summary of the two previous books classified under various suitable headings of materials and stores used in the process of manufacture.

STORES LEDGER

Nature of material________________

Size or other description________________

Dr. Cr.

Date.	No. of invoice.	From whom bought.	Description.	Journal folio.	Quantity.	Price.	Amount.	Date.	To whom issued.	Quality.	Folio.	Quantity.	Price.	Amount.
							£ s. d.							£ s. d.

Every time the books are made up, and at such other intervals as may be prescribed by the management, stock is taken of all these various classes of goods and they are duly recorded in the Stores Ledger, the accounts are ruled off, and the balance of stock on hand is brought down for the purpose of reopening the Stores Ledger accurately. Any difference between the opening stock and purchases on the one hand and the deliveries and closing stock on the other is entered in red ink, and such differences are reported at each stocktaking to the manager, and perhaps also to the directors, who, in case of a serious discrepancy, will take such steps as they think necessary.

Another difference between manufacturing companies and trading concerns is the method of stating their final accounts. The latter, in the case of a private firm, will state their Profit and Loss Account as a single account, or will divide it into two parts, known respectively as the "Trading Account" and the "Profit and Loss Account." The former consists simply of a summary of the "Goods Account," and sets out the sales and purchases, with the adjustment of stock, whilst the latter consists of all other expenses. In the case of firms manufacturing the account is always divided into at least two parts, the first of which, frequently termed "Working Account," deals with the cost of manufacture, but contains more items than appear in the Trading Account before referred to. What precisely does appear in the Manufacturing Account varies with different firms. Some give the total expenditure connected with the work, including raw materials, wages, stores, fuel, rent, rates and taxes of the works, salaries of works managers, etc., on the ground that all expenses of manufacture must go into this account, and this as a theory seems correct. Many, however, hold that it is preferable as conveying more information to the owner if the debits charged against this account consist only of such items as directly vary with the quantity of work turned out, that is to say, raw material, wages, stores, carriage inwards, and in some cases fuel, leaving out those items which are for a fixed amount whatever the production may be. Since the division is a matter of opinion, for examination purposes it is best to deal with the items in the way with which you are most familiar, at the same time pointing out the reason and advantages of the different methods if asked as to the division of the account.

Depreciation

Another question which seriously enters into this class of accounts is that of depreciation, and to deal with that it will be well just to glance at the different assets one sees in a balance sheet. They may be roughly divided into fixed, floating, and wasting assets. *Fixed assets* are those by means of which the business is carried on, and include land, buildings, plant, machinery, etc. *Floating assets* are the actual loose assets by which the business is continued, and which vary in their nature and amount from day to day. This class includes cash, stock, book debts, etc. "Wasting assets" is a term applied to certain assets which from their nature become, as regards their present purpose, absolutely valueless, by mere effluxion of time or exhaustion. The principal assets of this nature are leases and mines.

In order to ascertain exactly what profit we have made, it is usual to value our floating assets on certain bases, whilst the values of the fixed assets are still taken at the amount at which they appeared in the last balance sheet, save for "depreciation," which is an amount charged against the profit of the company to reduce the fixed assets to their realizable value, when, from various causes, they cease to be of use to us in carrying on our business.

The rate of depreciation and method of dealing with it will depend upon the estimated life of the asset, its value, if any, when it has ceased to be of use to the manufacturers, the amount and regularity of the repairs or renewals necessary during its lifetime, and also the question of interest on the capital expenditure.

There are several different processes by means of which the asset may be reduced to the required figure. The first of these is the writing of depreciation off the original figure, and may be illustrated by the example of an asset costing £100, and expected to last twenty-five years, with no residual value, in which case £4 per annum would be charged to Profit and Loss Account, and credited to the asset. This method is used principally for assets which do not require heavy repairs, nor extensive renewals, alterations, or additions. It will be seen that a uniform amount is charged each year against the profits, and all repairs will, of course, also be debited as and when they occur to the same.

The second method is that of writing a fixed percentage off the diminishing value each year, once more charging all repairs and partial renewals against profits. Supposing, for instance, our asset has cost £100 and is expected to last twenty-five years, when its value for breaking up will be £7, it will be necessary to write off 10 per cent. per annum; so that the first year depreciation will be £10 on the cost of £100, leaving our asset in the balance sheet at £90; the second year our depreciation will be £9, leaving an asset of £81, and so on. By this method it will be seen that the earlier years bear a much higher charge for depreciation than the later years; it is, therefore, largely adopted where the asset is of such a nature that repairs will be heavier as our asset grows older, and is the usual system of dealing with machinery and other assets of that nature, especially where there is at the end of the period an appreciable residue in the shape of scrap metal, etc.

Another plan is to revalue the asset periodically, using one of the above methods (usually the second) in the interval. This is frequently done where the asset, though in its nature a fixed asset, is of a fluctuating character, such as loose tools or utensils, or where its life cannot be stated with any degree of certainty, such as a horse. It is not suitable for other classes of assets, since the charge to profit and loss frequently varies, and it includes in the revaluation fluctuations of value which are not desirable in a fixed asset. Suppose, for example, a machine cost you £50, and two years later, owing to an increase of wages and materials used, the same machine would cost £65, and yours, having been in use, was valued at £52, no one with sound financial views could possibly argue that your machine had suffered no depreciation, and that you had made £2 profit.

Depreciation may also be provided by a sinking fund. This is frequently done in the case of leases, especially where it will be necessary to buy a new lease, or pay a substantial premium for the renewal of the old lease. On this system such a sum is debited to Profit and Loss Account each year, and invested outside the business to accumulate at compound interest, as will provide sufficient to renew the lease or buy another without disturbing the floating assets.

Certain assets, however, are not considered to be liable to

depreciation either from their nature, such as land, or on account of legal decisions, such as goodwill, leaseholds, and mines (where the company is specially formed to work them), single ships, etc.

Costing

To come now to the more practical details of the business books and accounts, these, of course, will follow the ordinary double entry routine, with the additional impersonal accounts to record the special classes of assets and expenses. The distinctive portion of the accounts to a manufacturer basing his costs on a unit of manufacture will only commence after the ordinary final accounts have been prepared.

In businesses where everything is worked on the question of weights, such as the cotton trade, additional columns will be provided in the Purchase Analysis Book and the Sales Day Book to record the weights, and from these columns and the various expenses as ascertained from the Profit and Loss Account the figures in use in the cost accounts will be prepared.

It will thus be seen that cost accounts are an addition to the ordinary double entry bookkeeping, and are more of the nature of statistical returns.

The ordinary accounts are carried on in the usual way each year until its close, and then full stock of all floating assets must be carefully taken and priced according to the standard rules; that is, they must be priced at cost or market price, whichever is lower at the time of stocktaking. The stock must be carefully divided over the various headings—Finished Goods and Goods in Process, Raw Materials, and the different classes of stores in hand. Comparisons of the Stock and the Stores Ledgers must be carefully made, and finally the various stocks and stores must be credited to the accounts concerned, and debited to Stock Account. Reserves must be carefully made as in all other concerns, and after the depreciation and other special questions have been settled, the Profit and Loss Account and Balance Sheet may be prepared, and the various figures and calculations added to show the details of cost.

We give below, from "Advanced Bookkeeping," a form showing in outline a cost sheet, with comparative columns, of a spinning department in a textile mill; also a statement of production of yarns and cloth and stock at the end of the period.

	Analysis of cost for the week ending—										Corresponding period last year.				
	Weight spun this week.	Expenditure.			Cost.	Weight spun this year.	Expenditure.			Cost.	Weight.	Expenditure.			Cost.
		£	s.	d.			£	s.	d.			£	s.	d.	
Motive power															
Materials for manufacture															
Machinery materials															
Gas															
Repairs—wear and tear															
Sundries															
Freight															
Wages															
Other wages															
Interest															
Depreciation															
Rates and taxes															
Discount															
Commission and brokerage															

	Yarn spun.							Cloth woven.						
	Counts of yarn.						Total.	Counts of yarn.	Pieces.	Weight.	Price.	Value.		
												£	s.	d.
Yarn spun this week														
Previous to this week														
Add bought yarn used this week														
Add bought yarn used previously														
Less yarn sold this week														
Less yarn sold previously														

THE BLANK SPINNING COMPANY, LTD.

Profit and Loss Account, Year ending December 31

		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
79·05	To cotton, including carriage inwards				56,990	0	0	100·00	By yarns				27,096	0	0
11·82	„ wages				8,520	0	0	2·19	„ waste				1,582	0	0
2·01	„ motive power				1,450	0	0								
0·07	„ lighting				50	0	0								
0·86	„ rents, rates, and taxes				620	0	0								
0·33	„ binding				241	0	0								
0·07	„ roller cloth and leather				53	0	0								
0·30	„ repairs				215	0	0								
0·48	„ mill, sundry expenses and stores				350	0	0								
0·15	„ bobbins and strips				110	0	0								
2·10	„ discount				1,515	0	0								
2·25	„ commission				1,620	0	0								
1·39	„ depreciation				1,000	0	0								
0·14	„ insurance				100	0	0								
0·09	„ office expenses and stationery				68	0	0								
1·08	„ balance profit				776	0	0								
102·19					£73,678	0	0	102·19					£73,678	0	0

QUESTIONS AND EXERCISES

116. State briefly what you consider the principal points to be observed in arranging a system of bookkeeping for a manufacturing concern.

117. What is a "Cost Account"? Give a specimen of a Cost Account suitable for use in some manufacturing business with which you are acquainted, giving both the ruling of such account, and also entering not less than six, and not more than twelve, items of cost relating to that particular manufacture.

118. What books, in addition to the ordinary books of account, do you consider a manufacturer should keep in order to enable him to prepare a complete system of Cost Accounts? What information do you consider that such a system would provide?

119. Define fully the meaning of the term depreciation, and explain by illustration its treatment in the books of a limited company carrying on business as engineers and iron founders.

120. Sketch a system of maintaining a check on manufacturing wages.

121. How are stores entered and checked?

122. What is meant by "Working Account?" State the charges usually included in it.

123. Distinguish between fixed, floating, and wasting assets.

124. Describe various methods of dealing with depreciation in the accounts.

125. Outline a monthly statement of cost.

CHAPTER XIV

MANUFACTURING—continued

Terminal Cost Accounts—Wages—Materials—Stores—Plant Issued—Incorporation of Cost with General Ledger System—Costing outside the General Accounts.

This chapter is intended to deal with that class of manufacturing concerns which is referred to in the last chapter as group three, and includes those businesses which are able to ascertain the cost of each article produced in the work by means of cost accounts usually opened for each job obtained. It includes engineers, builders, contractors, etc., and the accounts generally are popularly known as "Terminal Cost Accounts."

The Cost Accounts under this system include practically the whole of the revenue accounts, and may be a separate system altogether, or may form an integral part of the ordinary double entry system. If the former system be adopted, the costing section should be put upon a double-entry system to provide the test of accuracy which exists under that class of accounts; if the latter, it should be arranged so that all the items forming the direct costs should be made a self-balancing section within the general accounts.

The accuracy of the accounts is an assistance to those who have to prepare future estimates, and since in businesses of this description the more important work is only obtained after a tender has been made by various competing firms, the importance of this can scarcely be overestimated.

Wages.—To deal with the variations of the detailed work alluded to in the last chapter, the first point to consider is wages. These may be divided, in the first instance, into wages payable at the works and those payable outside. The latter depend very much on the class of business carried on. A builder,

for example, will pay the greater part of his wages away from his office, and also the wages of men engaged on erecting the machinery or structure in respect of which the contract is made. This division of the wages does not call for any particular attention, as special subsidiary wage-sheets are sent to the place where the work is going on, and in many cases a temporary office will be used. The clerk responsible will send for the exact amount of wages, or, if he is further away, will obtain a cheque for a round figure of sufficient size to cover the wages and other out-of-pockets, and as soon as the exact amount is ascertained, will send particulars of his payments, which will be forthwith entered as being incurred on the particular order.

The other wages are entered by the workmen on time-sheets, showing the job and class of work, and also the amount of wages earned on each item of work done on the various jobs. These sheets are compared with the Wages Book, and are then ready to be analyzed under the various jobs to be dealt with by our costing system, in the manner to be described later. Any unproductive work is, of course, analyzed in a similar manner, so that the total of the summary under the various job numbers will agree with the total wages paid as per the Wages Book.

Materials.—The raw materials, which were in the last chapter treated throughout as "stores," may also be subdivided into materials purchased for special jobs (which we shall call in this chapter "direct materials"), and materials which are purchased for any order which may require them (here alluded to as stores).

Direct materials will be entered in the Purchase Analysis Book in a special column, which will have columns ruled to show the job number, folio in Cost Ledger, and also, if so desired, columns for quantities. These are analyzed under various jobs, or may be posted direct to the debit of the various contracts in the Cost Ledger.

Stores.—With regard to the stores the treatment is different. In the last chapter it was recommended with a view of preventing pilfering that a full system of Stores Accounts should be kept, consisting of Journals for Stores Inwards and Outwards, and also a Stores Returned Book, but such accounts were not absolutely necessary, however desirable. Under the present system,

however, Stores Accounts become a necessity, and the ruling of the journals must be modified to show, not only the stores issued, but also the work for which such stores are required. A specimen ruling for these books is—

STORES ISSUED BOOK

Date.	Requisition number.	Order number.	Description.	Quantity.	Price.	Amount.			Stores ledger folio.	Cost ledger folio.	Remarks.
						£	s.	d.			

The ruling for the Stores Returned Book, which is to record stores which have been returned to stock after having been requisitioned for various contracts, is similar to the above, but the entries are, of course, reversed in the ledger. For the Stores Inwards Book the same particulars will be recorded as were set out in the last chapter, and the ruling of the Stores Ledger will also be the same.

Expenses.—The treatment of unproductive work and of the establishment and office expenses still remains before we can ascertain the total cost of any particular contract, and these will be debited to the cost of a contract by charging a percentage on the total wages of each job; or, alternatively, a smaller percentage on the labour and a percentage on either the materials or the "works cost," which includes labour, materials, and the first percentage.

Cost Accounts

We have set out above the details necessary to obtain the information to furnish our accounts, and can now give a continuous record of the bookkeeping required to set out the cost of each contract. As previously stated, this can be taken as an integral part of our double-entry system or treated as entirely separate.

If we deal with the earlier method first, we shall make the Cost or Contract Ledger the centre of a self-balancing system. An account will be opened in the ledger for every piece of work obtained.

In the General Ledger System, accounts will be opened for all the usual nominal accounts and a Cost Ledger Adjustment Account, and in this system the following will be a summary of the method of treating the principal accounts where it differs from the ordinary methods of bookkeeping.

Wages (which have been debited from the Cash Book as usual) will be credited from the Wages Analysis Book with all productive wages, and the Cost Ledger Account debited with the same figure.

Direct materials will be treated in the same way from the total of that column in the Purchase Analysis Book.

Stores will be similarly treated from an analysis of stores issued, which agrees with the monthly totals of that book; whilst the stores returned are debited to the Cost Ledger Account and credited to stores.

There will also be various expenses which are chargeable directly against various jobs, such as travelling expenses, etc., which can be posted in the first instance to "expenses chargeable" and periodically analyzed, and this account will be credited and the Cost Ledger Account debited with the total.

Particulars of the percentages charged to the various contracts to cover indirect expenses can be debited also to the Cost Ledger Account and credited to an "Indirect Expenses Account," and the credit balance of this account should be sufficient to at least equal the various debit balances remaining in the General System.

In the Cost Ledger System the items will, of course, be reversed: thus the General Ledger Adjustment Account will be credited and the various contracts debited with the total amount of wages chargeable, and so on, to show the total cost of each job.

The Sales Book will follow the ordinary ruling, with weight columns if usual in the particular trade, and two posting folios, one for the ordinary Sales Ledger and one for the Cost Ledger, the latter being credited with the amount.

The total of sales at the month end in the General System

will be credited to Sales Account, and the same amount subsequently debited to sales and credited to the Cost Ledger Account, the monthly total being also debited in the Cost Ledger to the General Ledger Account, the credits having been previously credited in detail from the Sales Day Book. The entries are, in fact, the exact converse of direct materials.

Presuming for simplicity the unlikely case of all contracts on hand being just completed at the year end, the Profit and Loss Account can be prepared by extracting from the Cost Ledger the various balances of the accounts for each contract. If it is desired to raise a Profit and Loss Account in the usual form, it can be obtained from the General Ledger by extracting the balances of the various nominal accounts after excluding all transfers to the Cost Ledger System.

The Cost Ledger will be finally closed by transferring the balances to the General Ledger Account, whilst in the latter system the Cost Ledger Account will be debited with the net profits and Profit and Loss Account credited. The adjustment of the indirect expenses—that is the difference between the actual cost and the percentage charged against the contracts—will also appear.

The majority of firms, however, prefer to keep their Cost System entirely separate, and this can easily be done by omitting the various transfers in the General System as set out above and providing a special Nominal Ledger for the Cost System, debiting wages, stores, direct materials, etc., in that book instead of the General Ledger Adjustment Account. In this case the total of these accounts will be compared and agreed with the corresponding figures in the General System, and at the year end a separate Profit and Loss Account will be prepared from the Cost Accounts alone, which should approximately agree with the profit shown by the General System.

In some trades special books are used for outside work to deal with "plant issued" and "plant returned," which are charged to the contracts involving this class of work, the figures in each case being based on a valuation made at the time, and therefore charging each contract with its own depreciation on that section of capital expenditure. This, however, does not call for further explanation.

Contracts in Progress

The question of contracts in progress now demands attention, and may be divided into those which are so nearly completed that a fair estimate may be made of what will be necessary to complete the entire work, in which case it is valued at its selling price less the amount reserved, and the profit carried to the accounts as if it were completed.

Contracts which have only just been started are usually taken into stock at the amount of cost, including, of course, the usual percentages to cover the expenses.

If any contract is divisible into different sections which under the agreement may be charged out separately, it is perfectly safe to charge out any portion of the contract which is so divisible as if it were a distinct contract. Whichever plan is adopted, however, with the contract in progress is a practical rather than an accountancy question, and the estimate of the amount required to complete the contract, if the first method should be so used, can only be very roughly checked by the office, if, indeed, it can be checked at all. The office, however, should go carefully over all charges incurred since the books have been closed which should be debited to contracts in progress, or for which no invoice may have been received, such as carriage, etc., and see that due provision is made for these items in the estimate.

On Cost

Another point calling for fuller discussion is the question of the percentage charged to cover indirect expenses. The principal sub-headings of these expenses are rent, rates, taxes and insurance of works, motive power, repairs, upkeep and depreciation of machinery and plant, works salaries, and other direct expenses of the works, all of which may be classed as works expenses; and the office and financial expenses, which include stationery, office salaries and expenses, directors' and general manager's salaries, interest, discounts, bad debts, etc.

These charges, as previously explained, are provided for in the Cost Account by a debit which may be based on the number of hours expended, the amount paid for labour, or the total cost of

the job, or a combination of all of these methods. In case it is desired to use the first method, columns will have to be added to the Analysis Book and Cost Ledger to show the time spent on each job; but most firms prefer to deal with all these expenses by a charge on labour only, or alternatively by that and a further percentage on the total cost. Possibly on account of its simplicity, the method most usually adopted would appear to be a charge on the cash paid for labour only. The rate to be debited will be based on previous years' experience, as no general rule can be laid down for any one firm, the charge varying in every case for the different classes of business and the circumstances of each manufacturer. The term of "on cost" is given to cover this percentage.

Patterns

In addition to the other expenses which we have previously dealt with, the patterns for the various machines or portions of a machine must be debited against the job using them. If the pattern is made specially for any job, it is usually debited to it, unless there is every reasonable probability that it can be shortly used again for a "repeat" or similar work. The method of charging stock patterns varies considerably. In the first instance, the total cost should be ascertained as if it were an ordinary job, and the cost dealt with according to its estimated life. This will depend, however, not on any length of time, but on the frequency of its use. It is also complicated by the fact that, owing to being seldom required, some of the patterns may become obsolete before they are worn out. The system adopted in some firms is to charge a fixed percentage of the original cost of all general patterns against all orders on which such patterns are used. This percentage will be at such a rate that a considerable margin is left over to provide for the patterns which cannot often be used. For example, suppose a particular class of patterns will serve for between fifteen and twenty times and cost £28. Very likely each contract for which this pattern was used would be charged with £2 16*s*., or ten per cent. of the cost for use of the pattern, and supposing this particular pattern were used seventeen times, this would leave a margin, after writing off the original cost, of seven

times £2 16*s*. or £19 12*s*., a surplus which would cover the loss on a pattern of similar cost which, owing to lack of orders, could only be used three times. In order to do this without numerous transfers, it is usual, after fixing the charge for each pattern, to transfer the cost to a "Patterns Account" which covers all the patterns, and against which the charge for every pattern used will be credited.

It will also be seen that if the useful pattern of which we have spoken in the last paragraph is still required, a second can be made more cheaply than the first, since there will be no designer's wages to charge in the second cost account for the new pattern, as the old design is, of course, applicable, but the charge of £2 16*s*. will still be debited against contracts making use of it.

Machines for Stock

The only remaining point which it is proposed to deal with before we come to the final summaries is the question of machines or parts of machines which are in regular use, and which are manufactured for stock whenever there is a little time to spare from the specific orders. Each job for stock will be given a consecutive number as if it were an ordinary contract, and a separate ledger account is opened for it in the Contract Ledger; but when it is completed, the total cost, including, of course, the percentage for indirect expenses, which has been added, the contract is credited and a Stock Account debited with the total cost. When the opportunity arises to sell the machine, the price will be credited to Stock Account through the ordinary Sales Book, and the profit thus brought into account. If, however, it is not a machine, but only a portion which is to be used as part of another, the ordinary selling price will be charged for it, and a special transfer made from stock to the contract for which it is being used, as a "direct material," such amount being entered in that column in the contract account in red ink, so as not to interfere with the balancing of direct materials in the Contract Ledger, with the "Direct Material Account" in the General Ledger.

We have now explained the general principles of the cost system, and have to show the reconciliation between the two

COST LEDGER

No. of job__________ Pattern No.__________ Date required__________ Date delivered__________

Particulars of contract____________________ For whom____________________

Dr. Cr.

Date.	Narrative.	Fo.	Direct materials.			Fo.	Stores issued.			Fo.	Plant issued (in red). Expenses chargeable.			Fo.	Other debits.			Fo.	Wages.			Date.	Particulars.	Fo.	Stores returned or plant returned (in red).			Fo.	Other credits.		
			£	s.	d.		£	s.	d.		£	s.	d.		£	s.	d.		£	s.	d.				£	s.	d.		£	s.	d.

systems. The Cost Ledger will be ruled to show at a glance the various classes of expenditure incurred on any particular contract—for example, see p. 212.

From this ruling it will be seen that it is particularly easy to make a full extract of the Cost Ledger, to show the actual amount or value of all charges made against each contract, and that is our course when we come to the end of our financial period.

The form of such analysis will vary according to particular views and requirements of each individual business. The example on p. 214 is a specimen.

The method of using the analysis requires a little explanation. The amount of balance brought forward includes those items which were valued in the last balance sheet at cost only, not taking into account those contracts which were treated as being completed, subject to a reserve. The next five columns are simply extracted from the Ledger in the ordinary way; the indirect expenses column is, of course, the amount debited in the Ledger by way of the percentages before referred to, and the succeeding column is for contracts which are nearly completed at the year end, where an amount is reserved and carried down as a liability to finish the same. Our next column, "Total cost," is simply an addition of the preceding figures. The next is the total amount charged per the Sales Book, together with the reserves brought from last year for the contracts nearly completed at that date. The remaining columns are self-explanatory.

The additions of the various columns dealing with materials and expenses other than labour, should agree with the debit balance of these accounts in the general system after the stock on hand has been credited to the respective accounts. The difference between the wages as shown on these sheets and the debit to wages in the general system should agree with the amount of unproductive wages in the summary of wages, and will have to be written off as an indirect expense. From the General Ledger System, the ordinary Profit and Loss Account will be prepared after entering the reserves for uncompleted contracts, etc., to correspond with the amounts already dealt with in the Cost Ledger.

The profit or loss, as shown by the sheet extracted as above,

ANALYSIS OF COST LEDGER

Folio.	Contract No.	Description.	Balance brought forward.			Direct materials.			Stores issued (net).			Plant issued (net).			Expenses chargeable.			Wages.			Indirect expenses.			Amount estimated to complete.			Total cost.			Amount of contract charged out.			Value not yet charged out.			Contracts in progress at cost.			Balance, being manufacturing					
																																							Loss.			Profit.		
			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.

should, subject to the adjustment of indirect expenses, agree with the Profit and Loss Account as prepared from the General Ledger.

If, during the year, capital extensions have been executed by the concern's own workmen, a special account will be kept of this, and the cost price will be debited to machinery or the other accounts involved and the Cost Ledger Account closed. The repairs executed will also be treated as a special outside job and the total debited to repairs and treated as an ordinary indirect expense, as mentioned above.

As candidates in the Accountants' examination are frequently required to draft a form of Cost Sheet, we append the following outline form suitable for engineering works.

FORM OF COST SHEET

No. 99. Machine for
Date________ Nixon & Co., Whitworth Street, Manchester.

Fitting		
Turning		
Planing		
Shaping		
Forging		
	———	———
Models		
Castings		
Wrought iron		
Steel		
Brass		
Stores		
	———	———
Total prime cost		
Fixed charges per cent. on prime cost . .		
	———	———
Profit . . .		
Day book		
Weight . .		

QUESTIONS AND EXERCISES

126. Give an example of a Stores Issued Book.

127. Discuss the methods of dealing with establishment charges, and the calculations for same.

128. Describe how the cost system may be incorporated in the General Ledger Accounts.

129. Explain how contracts in progress should be treated in the accounts.

130. How are capital extensions and repairs executed in the works dealt with?

131. Define "on cost," and state the principles on which you think it ought to be apportioned.

132. The directors of the Old Time Spinning Company decide to entirely replace their plant, which is now out of date. Having advertised for tenders for the new machinery they require, they accept that sent in by Messrs. A. B. and Co., amounting to £8850.

The old Machinery and Plant Account stood in the books of the company at £5400. There was also a depreciation fund in the books, the accumulated credit balance of which amounted to £1050. Some of the materials composing the old machinery were found to be in good condition, and Messrs. A. B. and Co. agreed to take over shafting, etc., valued at £550, for use again; whilst the remainder was put up to auction and realized £1200 (net).

Make the entries necessary to record these transactions in the books of the Old Time Spinning Company, and state how you would deal with the balance of the old "Machinery and Plant Account."

133. In preparing the Profit and Loss Account of a manufacturing firm, what different methods are there of providing for the waste of an asset owing (*a*) to wear and tear, as in the case of machinery; (*b*) effluxion of time, as in the case of a building erected upon leasehold land?

What methods do you favour for providing such waste, and why? State briefly what entries would be required to carry your suggestions into effect.

134. The Sherbourne Iron Furnace Co., Ltd., has a registered capital of £150,000, divided into 150,000 shares of £1 each; 120,000 shares, upon which 10*s*. per share has been called up, have been issued and subscribed. Owing to default by non-payment of calls, 100 shares, upon which £5 have been received, have been forfeited in accordance with the articles of association.

On September 30, 1905, the stock in hand was taken, the value of which, certified by the managing director, was as follows:—

	£	*s*.	*d*.
Pig iron	16,045	0	0
Limestone	78	0	0
Coal and coke	900	0	0
Iron ore, etc.	1,128	0	0

The Ledger balances on September 30, 1905, set out below, were extracted from the company's books, after all the necessary trade reserves and depreciations had been adjusted.

Prepare a "Furnaces" (or Working) Account, showing the cost of the pig iron produced, a Trading Account and Profit and Loss Account for the year

ended September 30, 1905; and a Balance Sheet as on that date, after carrying £2000 to the Dividend Reserve Account:—

LEDGER BALANCES (September 30, 1905).

	£	s.	d.
Freehold Premises Account	23,400	0	0
Furnaces, Fixed Plant, and Utensils Account	24,920	0	0
Locomotives and Rolling Stock "	7,411	0	0
Reserve Account	2,000	0	0
Share Capital Account	59,950	0	0
Wages (Furnaces) Account	8,724	0	0
Bills Payable "	120	0	0
Limestone Stock "	122	0	0
Coal and Coke Stock Account	1,400	0	0
Iron, Ore, etc., " "	1,006	0	0
Pig Iron " "	26,272	0	0
Coal and Coke Purchases Account	27,227	0	0
Limestone " "	3,320	0	0
Iron Ore, etc., " "	14,467	0	0
Sundry debtors	7,257	0	0
Profit and Loss Account (credit balance)	7,822	0	0
Sales Account	86,873	0	0
Rates and Taxes Account	1,297	0	0
Repairs and Renewals of Furnaces, etc., Account	2,500	0	0
" " Rolling Stock, etc., Account	1,221	0	0
Office Salaries and Sundry Wages Account	1,728	0	0
Travelling Expenses Account	237	0	0
Insurance (Fire and Employers' Liability) Account	385	0	0
Law Charges Account	233	0	0
Forfeited Shares Account	5	0	0
Sundry Creditors	5,604	0	0
Bad Debts Account (debit balance)	9	0	0
Dividend " (paid March 31, 1905, on account of the year ended September 30, 1904)	5,995	0	0
Bank Overdraft	1,981	0	0
Cash in hand	224	0	0
Carriage Account (inwards)	2,000	0	0
" " (outwards)	3,000	0	0

CHAPTER XV

STATISTICAL RETURNS

Overdue Book Debts—Cash Summaries—Ledger Balances—Approximate Trading Accounts—Diagrams and Curves in regard to Turnover and Expenses—Dealings in Debenture Stock—Prices of Cotton and Bank Rate.

ACCOUNTANCY has, within the last few years, included within its scope the preparation of statistical returns, furnishing particulars of the utmost service to proprietors and managers of all classes of undertakings; for instance, in regard to the comparative statements of production, turn-over, expenses, and out-goings.

One reason for this is the growth of large businesses, either by development or amalgamation, and the increasing keenness of competition. It is an impossibility for directors of a big concern to exercise a proper control over it without more frequent statements of expenses than is furnished by periodical Profit and Loss Accounts and Balance Sheets, which always involve a certain amount of dislocation and inconvenience.

In the various chapters dealing with cost accounts certain aspects of statistical returns are seen, more particularly in that relating to colliery accounts, since the cost sheet in that class of account is prepared periodically and frequently.

The nature and scope of these returns will naturally vary with every individual case, since each will require different information, which depends on the nature of the supervision and the inside knowledge possessed by those to whom it is submitted, and also on the materials from which we must form our figures.

For instance, the first section to deal with under this heading consists of book debts. With regard to the nature of the information to be recorded in the report, it will be decided by the internal system in the office itself. Let us suppose that each month, when the statements are sent out, the names and

amounts are recorded in a "Statements Book," consisting simply of a space for the ledger folio and name, and then various money columns reserved for the month due, and as the amount is paid, it is simply crossed out by a pen mark. If this system is in vogue, it forms the material for our first book intended for submission to the head of the office, whether he be head bookkeeper, cashier, secretary, or accountant. It may be, however, that no "Statement Book" exists, then the ledgers may be self-balancing and checked monthly, in which case overdue accounts are specially marked on the balances abstracted. Finally, if neither of these systems exists, each ledger clerk must submit a list of the overdue accounts in the ledger under his control.

This list should be entered in a special "Overdue Accounts Book," ruled to show all necessary particulars.

Folio.	Name.	Amount.			Date due.	Date paid.	Cash.			Discount.			Allowance.			Remarks.
		£	s.	d.			£	s.	d.	£	s.	d.	£	s.	d.	

The remarks column would contain any particulars necessary to show why the account was not paid, or the method of finally dealing with the transaction. It might contain notes to the effect of "Dispute as to quality," "Items claimed to be returned and disputed," "Empties not returned," particulars of securities held, if any, or in more unfortunate cases, "Receiving Order made Oct. 15," "Deed of Assignment, Nov. 25," "Composition of 10*s*. offered, Dec. 11."

These accounts would be carefully gone into, and probably special letters or statements sent, by the secretary, and would be submitted to the board for instructions as and when arranged. They may decide to settle the dispute, or sue the debtor, or, in one of the two latter cases quoted, decide to assent to the deed of arrangement or otherwise. It is, of course, entirely a matter of internal arrangement when, how, and for what purpose these

lists shall be given to the board. They may be submitted when, say, two months overdue, to allow the secretary time to clear them up, if possible, or authority may be given to the secretary to assent to arrangements with insolvent debtors apart from bankruptcy; but periodically this book, or a summary from it, should be submitted to the board or the proprietor, as the case may be.

The next statement to be prepared for the board would be a summary of cash receipts and payments for the month, which would naturally appear in as simple a form as possible. To this would be added a summary of the available balances and funds expected to be received during the current month, and a further statement of the liabilities to be met during the same period, which might suitably appear in the following form:—

CASH SUMMARY FOR MONTH ENDING MAY 31

	£		£
To opening balance		By creditors	
„ sundry debtors		„ expenses (detailed as required)	
„ other receipts		„ other payments	
		„ balance	
	———		———
„ balance brought down . . .		„ creditors payable in June .	
„ bills receivable in hand . .		„ current expenses	
„ debts due during June . .			
	———		———

To this might be added the summary of the personal accounts if the ledgers were self-balancing; and in fact, even if they were not, an approximate statement in a similar form is useful for both debtors and creditors.

SALES LEDGERS ACCOUNTS

	£		£
May 1. To opening balance .		By cash	
„ 31. „ sales		„ discounts	
„ „ other debits . . .		„ returns and allowances . .	
		„ bad debts	
		„ other credits	
	———		———

In addition to these, if Stock and Stores Accounts are kept, approximate monthly trading accounts can be submitted to the board by use of the particulars obtained from the Stores Ledger.

ESTIMATED TRADING ACCOUNT FOR MAY

		£	s.	d.
	Sales			
	Less purchases.			
	Difference in stock (add increase, deduct decrease) .			
	Estimated gross profit			
Percentage on turnover.	*Expenses for month*—	£	s.	d.
	Wages, per cash summary and adjustments .			
	General expenses per cash summary and Purchase Book			
	Stationery and office expenses per cash summary and Purchase Book			
	Monthly proportions of standing expenses—			
	Rents, rates, and taxes			
	Gas, coal, and insurance			
	Directors' fees			
	Etc.			
	Balance, being estimated net profits . . .			

If desired columns may also be added to show the trial figures under the same headings for the full year to date, with corresponding figures for the previous month or for the corresponding month in the previous year.

In the case of manufacturing companies the statement will naturally be rather fuller, and may be rendered in a complete form by means of additional columns, all of which depend, of course, on the care and accuracy with which the stores accounts and the reserves and estimates are kept.

MONTHLY STATEMENT FOR THE BLANK MANUFACTURING CO.

For Period ending May 31

	£	s.	d.
Sales for month			
Stock at May 31			
Less stock at May 1			
Production for month			

	Opening stock.			Purchases.			Closing stock.			Consumption or Cost.			Percentage.
Direct expenses—	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	
Raw material . . . . (subdivided as required)													
General stores . . . . (subdivided as required)													
	Cash or purchases.			Reserve.			Less opening reserve.						
	£	s.	d.	£	s.	d.	£	s.	d.				
Wages													
Fuel													
Other direct charges . .													
Balance, being estimated gross profit													

The statement of the indirect expenses will be similar in manufacturing and trading concerns, and does not therefore require repetition. In the same way particulars may be given of each department or branch (if any) when so desired by the management. The special returns supplied by branches and described in the chapters relating to them may also be submitted, and are properly included under our heading of Statistical Returns.

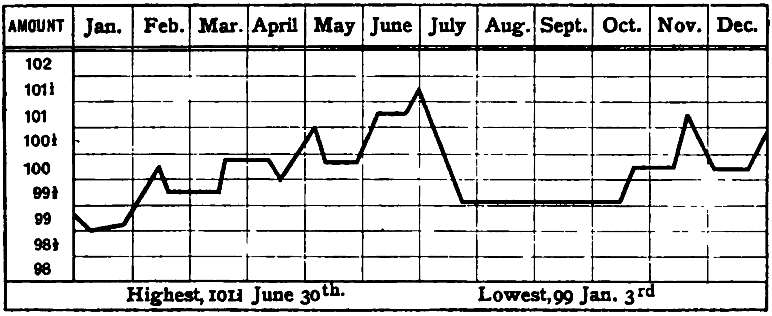
All the statements which we have so far prepared for our board meeting, as will be seen, are in the nature of bookkeeping; returns, that is to say, are prepared principally from books of account, and in many cases are balanced off and worked up as if they were integral parts of our double entry system; and indeed all particulars have been furnished in the above forms for the preparation of an approximate Balance Sheet, if one were required. But there are other forms of returns which are very useful and are employed in many trades, which come under an entirely different description, and amongst these we must include and deal with diagrams and curves.

These statements are of much service to limited companies to show the fluctuation taking place on the market with regard to their own shares or debentures, or to record the fluctuations of the raw material or average selling price of any article which a concern may deal in or manufacture, where such commodities have a standard market price which governs the sale or purchase thereof. The form may perhaps be most simply described as that of a weather chart, such as appears in many daily papers, and may indeed prove a very true "weather chart" to any company except the favoured few which are always at "set fair."

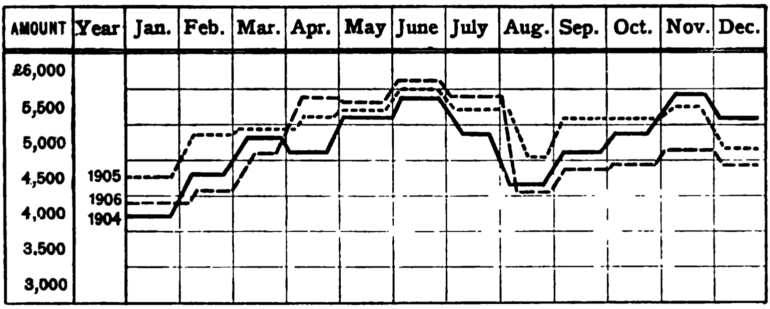
The use to which these charts may be put is endless. For instance, a statement may be prepared to deal with the total sales of a trading concern for a number of years, all of which may, by appearing in different coloured inks, or by a different kind of mark, be represented on one chart, so that the managers can see the full turnover done for many years past in comparison with each other. In the case of sales it is an advantage to have two charts running, one dealing with the sales of each month only, and the other dealing with the total sales for the full period of the year to the date mentioned at the head of the chart.

Three forms of this class of return are given below, from which it will be easy to see the method of preparing and dealing with them.

STATEMENT OF DEALINGS IN THE COMPANY'S DEBENTURE STOCK FOR THE YEAR



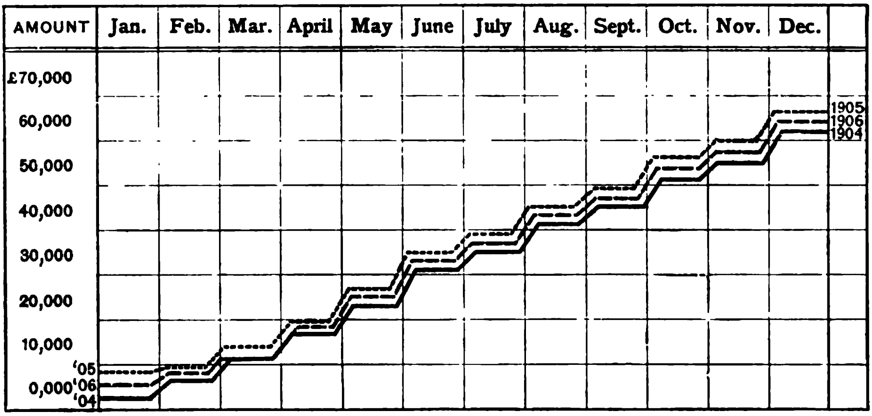
PARTICULARS OF TURNOVER FOR THE VARIOUS MONTHS ENDING DECEMBER 31, 1906



SUMMARY

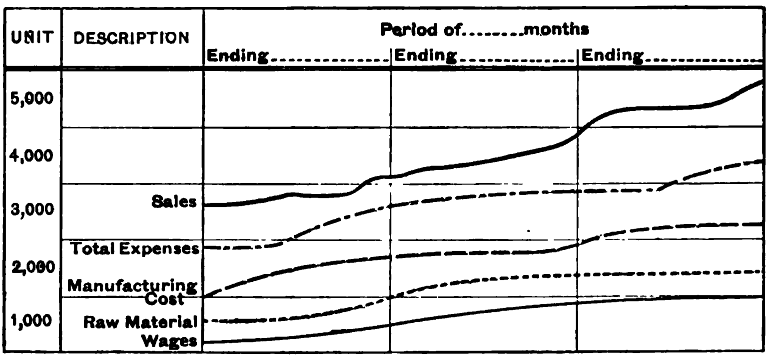
		1904.		1905.		1906.
		£		£		£
Highest . .	Nov.	5,902	June	5,829	June	6,007
Lowest . .	Jan.	4,106	Jan.	4,710	Jan.	4,420
Average . .		5,110		5,429		5,192
Total . .		61,427		65,146		62,304

PARTICULARS OF TOTAL TURNOVER AT VARIOUS MONTH ENDS



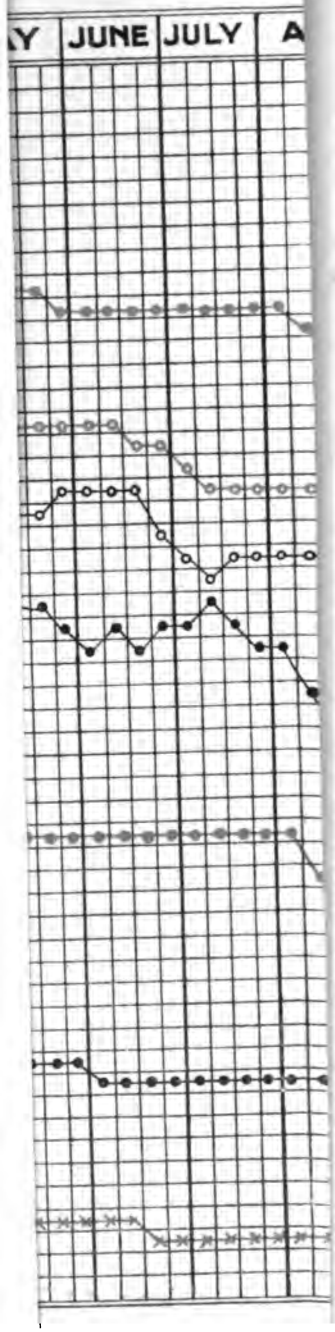
The same information may, of course, be put into statistical form if so desired, but the information for a series of years will come out more clearly in a diagram where general tendencies rather than exact figures are required to be noticed and examined, which makes this method particularly suitable for shares, cost of raw material, sales, or any one class of income or expenditure, though, of course, it is quite unsuitable for any detailed or complex statement. Charts may, of course, be prepared if desired to show the rise or fall of percentages of expenses, etc., or may be very useful as a means of comparison as to any two classes of income or expenditure, though they are not suitable for more than two different classes if intended in any way to be worked together, though the following table will show how they can be satisfactorily used even in this respect where so desired.

PARTICULARS OF TURNOVER AND EXPENSES



N, & CLOTH,

d Minimum Rate of



A similar table is also used to compare the cost and sale prices of various machines where many machines are manufactured of a similar class, but varying grades, for example, bicycles or sewing machines.

Another class of information which can only be treated under this heading, though it can scarcely be described as "statistical," is the information which it is usual to obtain in connection with the standing of any new customer.

The sources of information are various, and may consist of bankers' or traders' references, but more usually the report is obtained from one or other of the numerous trade inquiry offices which exist all over the mercantile world. In houses which usually deal with large accounts it is frequently a fixed rule that no credit shall be given to a new customer until a satisfactory report has been received from one of these offices.

The method of dealing with the information obtained varies in different offices—in some all reports as received are given a consecutive number, and a reference to this number is placed at the head of the ledger account, occasionally with a note as to the amount of credit to be given. Other firms prefer the system of filing cabinets, which will be used with the cards supplied for the purpose, so that all the accounts which have been opened will appear in alphabetical order with the report from the inquiry office and a note as to the promptitude or otherwise of the remittances on previous business.

As illustrative of the usefulness and variety of information which may be included in one chart, we give the annexed specimen of one furnished to the members of the Manchester Chamber of Commerce; for the favour of which we are indebted to Messrs. R. Barbour Bros. of Manchester.

CHAPTER XVI

BANKING

Services of Bank—Relation of Banker to his Customer—Sources of Profit—Bill Discounting—Guarantee of Advances—Advances to Bill Brokers—Opening of Account—Deposit and Current Accounts—Money at Call—The Bank of England and its relation to the Banking World—Government and the General Public—Bank Rate—Bank Note Issues—Bank Returns—Check on Bank charges.

In the various classes of business in which we have been concerned in the preceding pages, the banker has rendered much service. To Mr. Reader of our first chapter he was practically the cashier, receiving and collecting cheques and bills, paying accounts and retiring acceptances, also at a later stage in his business career advancing money in the form of an overdraft to enable him to extend his business operations. Similar service was extended to the partnership concerns whose business we considered. Then when we dealt with joint stock companies, we found that the numerous transactions in regard to share and debenture capital were dealt with by the bankers, as in the receipt of application, allotment, and call accounts, and later in the payments of dividends and debenture interest to shareholders and debenture holders.

Banking is one of the most productive agencies a nation possesses, and it is well that we should realize the immense influence it has upon the commercial prosperity of a country, especially as England may be considered to have the most economical banking system in the world.

To quote what we have said in "Worked Studies":—

"It has been well said that banking is the nervous system of the business world, promoting and controlling the immense volume of our home and foreign trade. Its service to business and commercial men increases in extent and diversity year by

year, and one can hardly imagine how trade could be carried on without the assistance of our banking system.

"To enumerate a few of the services for which we are indebted to our bankers—

"(*a*) The convenience and safety of depositing surplus cash, in many cases with a moderate interest accruing.

"(*b*) The convenience of making remittances by cheques and drafts.

"(*c*) The collection of cheques, country notes, dividend warrants, etc.

"(*d*) The obtaining of circular notes and letters of credit.

"(*e*) The advantage of making inquiries as to the financial standing of persons desirous of doing business.

"(*f*) Acting as referees to customers.

"(*g*) The dealing with the various receipts and payments of joint stock companies.

"(*h*) The securing of financial assistance by means of overdrafts, the discounting of bills, or advances on shipping documents.

"(*i*) The acting as exchange brokers, and the placing of branch houses abroad in credit by means of telegraphic transfers.

"(*j*) The value of bank shares as safe and remunerative investments.

"This enumeration of banking facilities must make us realize how much our trade is dependent for its smooth working and success upon the growth of a system which has its ramifications from our large business centres to almost every town and village in the country, as well as to agencies throughout the world."

It will be readily understood that in fulfilling these various functions the banker will stand in different relations to his customer, in each of which the duties, rights, and liabilities between the banker and customer are separate and distinct. By the economist these relations are set forth thus—

1. As the purchaser from him of money or debts.
2. As his agent, or trustee, or bailee of his money and valuable securities.
3. As the pawnee of the same.
4. As his warehouseman for valuables.

Put briefly, in the first case, which is that of the ordinary

current banking account, the relationship between the two is that of debtor and creditor.

In the second the banker is the agent or trustee of his customer, whose instructions he follows in regard to the disposal of his securities.

In the third instance the banker is the pawnee of securities on which he has made a loan, having the right to sell or charge the securities for the satisfaction of his claim; and in the fourth case, as warehouseman, no property or lien in the deposits passes to him.

To the man of business perhaps the most important of the above functions is the one of lending money, and it is to the banker to whom he has recourse for financial help in the time of need, when liabilities have to be met or additional capital is required for extension of business operations.

Joint stock banks with large paid-up capital and still larger uncalled capital in reserve, with big reserve funds and their affairs managed by influential directors, attract the savings and unengaged cash of thousands of individuals, who are pleased to place surplus cash with bankers with the assurance that it is safe, moderately remunerative, and readily obtainable.

Banks with such enormous funds at their disposal are thus able to finance industrial and commercial firms, and by the difference between the interest allowed on customers' accounts and that charged to borrowers make exceedingly satisfactory profits for the bank shareholders.

Let us inspect the accounts of Barclay and Co., Ltd. (p. 230), and from it form some idea of the magnitude of the transactions and of the income earning power of such companies.

Perhaps the most striking feature one observes is the fact that, after allowing for bad debts, there is a gross profit of over a million sterling upon a paid-up capital of less than three and a quarter millions. In seeking for an explanation of this we find that the bank has deposit and current accounts to the extent of forty-four millions, and in addition a reserve fund of a million and a half, most of the latter being invested in Consols. It will be seen, however, that advances to customers and bills discounted amount to some twenty-six millions, this being the way in which the moneys deposited with them are utilized, and upon which the profits are earned.

We may, therefore, understand that the sources of a banker's profits arise almost entirely from the lending of money. This takes the following forms :—

1. Overdraft or loans, either with or without deposit of securities.
2. Buying or discounting of bills.
3. Loans guaranteed by third parties.
4. The financing of shipments.
5. Advances to bill brokers and others.

1. In regard to these overdrafts and loans the custom varies amongst bankers; some allow the customer to overdraw to a certain limit and charge interest on the actual amount of overdraft, whilst others charge interest on the loan granted even though the customer does not avail himself to its full extent.

It is usual for the banker to obtain from the customers collateral security to cover or partially cover the risk of the overdrafts and loans. This may take various forms, viz.—

(*a*) Deposit of deeds of property owned by the customer, with or without a memorandum of deposit; or a legal mortgage of the property may be given to the banker.

(*b*) Deeds of property held by the customer, as mortgagee, or held as security for advances, *e.g.* solicitors financing builders.

(*c*) Bills of exchange.

(*d*) Share certificates which may, or may not, be transferred to the nominees of the bank, and notice being given to the company of the banker's lien where the shares are not transferable.

(*e*) Debenture scrip accompanied by letter of deposit.

(*f*) Dock and warehouse warrants which on endorsement carry a legal title to the goods.

(*g*) Insurance policies, regarded as security to the extent of the surrender value, and requiring notice to the insurance company of the charge on the policy.

2. *Bill Discounting.*—When a banker discounts a bill he becomes the absolute owner of it, taking all the owner's rights and responsibilities. If the bill is dishonoured he has his remedy on it against the acceptor and all other parties who have received notice of dishonour, including the customer who

Dr. BALANCE SHEET,

Liabilities.	£	s.	d.
To Current, Deposit, and other Accounts (including balance of Profit and Loss).	44,407,970	4	1
„ acceptances for customers	161,324	4	7
„ capital, viz.— 400,000 shares of £20 each, £8 paid.	3,200,000	0	0
„ reserve fund (per contra)	1,500,000	0	0
	£49,269,294	8	8

Dr. PROFIT AND

	£	s.	d.
To salaries and other expenses at head office and branches, including income tax	548,397	16	2
„ directors' remuneration	14,040	2	9
„ reduction of Bank Purchase Account	50,000	0	0
„ reduction of premises and payment for buildings . .	25,000	0	0
„ interim dividend of 12*s.* per share on 387,076 shares, free of income tax	232,245	12	0
„ dividend of 12*s.* per share on 387,076 shares, free of income tax	232,245	12	0
„ balance, being undivided profit, carried forward to the next year	81,754	3	6
	£1,183,683	6	5

F. C. GOODENOUGH, General Manager. F. A. BEVAN, Chairman.

We certify, in accordance with Clause 23 of the Companies Act, 1900, that all our requirements at the Lombard Street office and at the Bank of England, and have examined the securities represent- compared the above balance sheet with the balances on the books at the head office, and with the properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as

LONDON, July 14, 1906.

JUNE 30, 1906 Cr.

Assets.	£	s.	d.	£	s.	d.
By cash in hand, at Bank of England and with other bankers . . .	5,674,180	8	10			
„ cash at call and short notice . .	5,014,000	0	0			
				10,688,180	8	10
„ bills discounted				4,689,229	9	10
„ investments— (Including £300,271 16*s*. 0*d*. securities lodged for county and other public accounts)						
British Government securities and bank stock	2,820,069	19	5			
Metropolitan and British corporation stocks and bonds . . .	942,113	18	5			
Indian and Colonial Government securities, including guaranteed railways	1,816,289	6	1			
British railway debenture guaranteed and preference stocks . .	1,573,999	9	2			
Other securities.	2,149,109	17	1			
Reserve fund— £1,181,071 15*s*. 3*d*. Consols at 85. £257,731 19*s*. 3*d*. local loans stock at 97. £253,700 Egyptian 3% Loan at 97, guaranteed by the British Government	1,500,000	0	0			
				10,801,582	10	2
„ advances to customers including interest accrued on investments, etc.				21,458,316	7	9
„ liability of customers for acceptances (per contra)				161,324	4	7
„ balance of Bank Purchase Account				92,000	0	0
„ bank premises and adjoining property				1,378,661	7	6
				£49,269,294	8	8

LOSS ACCOUNT Cr.

	£	s.	d.
By profit unappropriated on June 30, 1905	84,790	18	5
„ gross profit, after deducting rebate and provision for all bad and doubtful debts	1,098,892	8	0
	£1,183,683	6	5

H. GOSLING
E. R. DODSWORTH } Directors.

as auditors have been complied with. We report to the shareholders that we have verified the cash ing the investments of the bank and those held against loans at call and short notice. We have also detailed returns from the branches, and report that in our opinion it is a full and fair balance sheet, shown by such books and returns.

C. F. KEMP, SONS & CO.
PRICE, WATERHOUSE, & CO. } Auditors.

endorsed it. The latter will not be liable, however, unless he endorsed it.

The entries are as follows:—

Dr. Bills Discounted Account.	Cr. the customer, with full amount of Bill.
Dr. the customer.	Cr. Interest Account with discount.

Payment of Foreign Bills is obtained by the banker—

(*a*) by negotiation.

Bill is sold to foreign banker or bill broker at current rate of exchange.

If the bill is drawn in sterling, it must bear the "exchange as per endorsement" clause in order to make it readily negotiable.

(*b*) by collection.

Bill is handed to banker, who forwards to foreign agent. It is then presented at maturity. The banker is credited and notified, and he credits his customer.

If the bill is drawn in sterling it is desirable that it should bear the clause "payable at the current rate for bankers' sight-drafts on London," and if it is intended that all expenses in connection with its collection are to be borne by the drawee, the following words in addition, "together with stamps, commission, and postages" or "together with all charges."

3. In regard to loans guaranteed by third parties, we think it well to give a specimen of the form of guarantee.

December 1, 1906.

To the Banking Company, Limited.

DEAR SIRS,

In consideration that you will have or continue a banking account with the Company, Limited, of , in the county of Lancashire (hereinafter called the principal), and make advances to them and give credit to them by discounting bills or otherwise, we hereby jointly and severally

guarantee the payment of the balance which may, on the closing of such account, be or become due to you from the said principal individually, or in partnership with any other person or persons to the extent of five hundred pounds.

And we agree that in default of any payment of the balance due on the said banking account by the said principal, you shall be at liberty, if you think fit, to receive and place to the credit of such account all such moneys, whether in the shape of payments, compositions, dividends, or otherwise, as may be recovered from the said principal or from their estate, or from any collateral securities, and after giving credit for the same, the balance that may then remain shall be recoverable under this guarantee; and any liabilities you shall be under by reason of your having put your name to any bills, or in any way guaranteed the same for the said principal, may be reckoned as part of such balance, notwithstanding such liabilities may, at the closing of the account, be outstanding.

And we undertake and agree not to make claim, prove upon, or receive dividends, from the said principal or from their estate, in respect of any sum paid or payable by us under this guarantee, or to pay you the amount due to you in respect of this guarantee, until you have received the full sum due to you from the said principal.

And we hereby further agree to pay interest at the rate of £5 per cent. per annum on the amount owing to you in respect of this guarantee, from the date of your closing the account of the said principal.

And it shall not be incumbent on you to enforce any payment from the said principal or estate, or from any collateral securities, before requiring us to pay the balance due on closing the account, which account you shall be at liberty to close whenever you may think proper. You are at liberty to give the said principal any time or indulgence, and to renew any negociable securities you hold as you may think fit, without affecting our liability under this guarantee; and you shall not be prejudiced by making any arrangement or composition you may think proper with the said principal without first obtaining our consent thereto. And this guarantee is to extend to the firm of the Banking Company, Limited, for the time being, of whomsoever composed, and to the Company, Limited, of

whomsoever it may consist, and is to be a continuing guarantee until we give you notice in writing to the contrary.

Dear Sirs,

Yours faithfully,

Witness to the signature of all.

Name_______________

Address ____________________

4. The financing of shipments has already been dealt with on pp. 149 to 151.

5. Advances to bill brokers, etc. There are three ways in which bankers may advance money to brokers—

(*a*) From day to day.

(*b*) For a short period.

(*c*) Overnight.

(*a*) signifies that the loan is taken to be running from day to day, so that the banker may recall it at any time he pleases.

(*b*) where the money is advanced for a definite period, usually for the time between the settling days on the Stock Exchange, when the loan is paid off or renewed, and the rate of interest and amount of security adjusted.

(*c*) where brokers, being pressed for funds, arrange with their bankers for a loan to be repaid the next day. The rate of interest will depend on the supply and demand for such loans.

Banking Accounts

Deposit Accounts represent loans to a banker on which interest is allowed, usually at 1 to 1½ below bank rate. These loans are of three classes—

(*a*) Sums repayable at call or demand.

(*b*) Withdrawable on specific notice.

(*c*) Amounts deposited with the bank for a fixed period.

A deposit account does not represent a specific fund held by the banker in a fiduciary capacity. Such money may be assigned as a whole, and in case of an account withdrawable on demand or at call, and even in other events, would probably be attached by a garnishee order.

Deposit receipts are given to the depositor; these are not negotiable, and their transfer confers no right to the deposit

account. Such receipts are exempt from stamp duty, unless interest is mentioned, when the receipt would require a sixpenny stamp.

Current Accounts.—This is the usual form of account of which the bank's customers avail themselves, for the balance of which, if in credit, the banker is debtor to his customer, and which, if overdrawn, the banker is a creditor. In opening an account an introduction to the banker would generally be expected, and some information furnished in regard to the business and character of the account, and instructions as to the drawing of cheques.

Accounts of Companies.—In the case of the opening of an account of a joint stock company the banker will require—

(*a*) Production of certificate of registration.

(*b*) Copies of memorandum and articles of association.

(*c*) Certificate of registrar of joint stock companies, showing that the company is entitled to commence business.

(*d*) Certified copy of directors' minute regarding conduct of the account.

(*e*) Particulars in regard to authorized signatures.

It is the custom of country bankers to allow a small rate of interest on accounts in credit, and on overdrafts to charge five per cent., or one per cent. above the bank rate.

Commission.—A charge made by the banks for the services rendered to the customers; the rate is a matter of arrangement—at times a fixed annual charge, at others no charge, but in lieu thereof the maintenance of a minimum balance to credit. The usual rate is one-eighth per cent. on the amount of withdrawals or cheques presented, calculated at the end of each half-year, so that if the turnover for December 31 reached £8000, the commission debited to the account by the bank would be £10.

The customer is supplied with a pass-book giving the particulars of debits and credits. The banker requests this to be left for making up, and to be checked by the customer at frequent intervals, with a view to its being a conclusive and accepted record of the transactions between the banker and his customer. This desirable object from a banking point of view may, from various legal decisions, be now considered as good law.

In regard to current accounts, the Statute of Limitations

operates as between any other Dr. and Cr., so that if a customer allowed his account to lie dormant for six years, he would be precluded from taking legal action for the recovery of any balance to his credit in the account.

A current account may be assigned as a debt, but only in its entirety, and not in separate amounts to different persons. Further, should a Cr. take garnishee proceedings, by which he gets an order from the Court to attach a debt owing to his debtor, the effect of the garnishee order served on the bank is to tie up the whole of the customer's credit balance on current account at date of the service, as being a debt due by the banker to the customer; thus a claim of £50 might hang up ten times the amount.

In case of the bankruptcy of a customer, his credit balance belongs to the trustee in bankruptcy, and the banker can be summarily compelled to pay it over to such trustee.

Cash paid into current account is subject to the banker's lien, unless paid in for a specific purpose—as to retire a bill.

A current account must not be closed without reasonable notice by the banker to his customer, and allowance must be made for outstanding cheques.

Although infants may have current accounts and draw cheques, overdrafts, being debts, could not be recovered against them.

Bank of England

The Bank of England has exercised a wonderful influence on the financial history of this country, and although the rise and development of joint-stock banks have, without doubt, weakened its influence, yet it may be considered the pivot upon which the English banking system turns.

History.—The Bank originated in 1694 by forty capitalists subscribing to lend £1,200,000 to the Government at 8 per cent. In return for this service a charter was granted, conferring certain privileges and powers to trade in bills of exchange and bills and to issue notes payable on demand. The charter has been frequently renewed, and the debt has grown until it now reaches a total of over 11 millions sterling.

By the Bank Charter Act of 1844, the note issue was limited

to 14 millions, upon securities of which the Government debt of 11 millions forms part, and provides that any note issued above that amount must be covered by coin or bullion stored in the Bank. Its management consists of a governor, a sub-governor, and twenty-four directors.

Its distinctive features, as compared with other banks, are—

(*a*) The only Bank whose notes are legal tender.

(*b*) The Bank of the Government, which adds largely to its prestige.

(*c*) Holds the gold reserve of the country.

(*d*) Fixes the bank rate week by week, and so acts as a financial barometer of the state of the money market.

Functions.—

1. *For the Government*—it keeps the Government Bank Account, superintends the transfer of Stock (Consols, etc.), and pays the interest on the National Debt.

2. *For the coinage*—buys gold at £3 17*s.* 9*d.* per ounce.

3. *For the banks*—keeps the reserves of all the larger banks and discount houses.

4. *For the public*—(*a*) Issues as required and pays on demand that well-known form of legal tender—Bank of England notes; willingly accepted as money in almost every centre in the world.

(*b*) As a purchaser of gold.

(*c*) Acts as banker.

On Thursday of every week a Bank Return is issued in accordance with the Bank Act, and the following is the one for the week ended October 3, 1906.

BANK OF ENGLAND

An account pursuant to the Act 7th and 8th Vic., cap. 32, for the week ended on Wednesday, October 3, 1906:—

ISSUE DEPARTMENT

	£		£
Notes issued	48,776,635	Government debt . . .	11,015,100
		Other securities	7,434,900
		Gold coin and bullion . .	30,326,635
Total . .	£48,776,635	Total . .	£48,776,635

BANKING DEPARTMENT

	£		£
Proprietor's capital . .	14,553,000	Government securities .	15,956,166
Rest	3,801,383	Other securities	34,974,642
Public deposits	9,730,482	Notes	19,103,675
Other deposits	43,191,756	Gold and silver coin . .	1,298,118
Seven-day and other bills	55,980		
Total . .	£71,332,601	Total . .	£71,332,601

It will be seen that two statements are supplied, one of the Issue Department and the other of the Banking Department, the business of each being kept quite separate.

Before discussing this return we had better outline the conditions under which bank notes are issued by various banks.

Bank Note Issues.—(*a*) The Bank of England was authorized by the Bank Charter Act of 1844 to issue notes against securities to the extent of £14,000,000, with power to increase its fiduciary issue to the extent of two-thirds of any lapsed country issues. (The fiduciary issue now amounts, under the exercise of this power, to £18,450,000.) For every note issued beyond this amount the Bank must hold coin or bullion, of which silver may form one-fourth part. The Bank, however, holds no silver.

(*b*) Private banks. These must not exceed the amount of their issue fixed in 1844, *i.e.* the average amount of their issues for the twelve weeks preceding April 27, 1844. The number of partners must never exceed six, otherwise the issue is lost; and the bank must not open an office within three miles of London. A return of the notes in circulation must be made monthly.

(*c*) Joint-stock banks. Like the private banks the maximum amount of the issue of these banks is the average amount of the notes of such banks in circulation during a period of twelve weeks, as above. Joint-stock banks of issue, registered as limited companies, cannot limit their liability upon their notes; nor can they have an office within sixty-five miles of London. A return of the notes in circulation is required monthly.

(*d*) and (*e*) The Scotch and Irish note issues are governed by the Acts of 1845. The maximum circulation is the average of the year ending May 1, 1845. Scotch and Irish banks may, however, exceed their fixed limit, provided they hold gold equal to such excess issue. Notes under £5 are permitted.

In Ireland, if any bank gives up its issue the Bank of Ireland

may increase its issue by the full amount of the lapsed issue. Returns of the notes in circulation and of the coin held must be made.

Licences.—All banks of issue, except the Bank of England, require a yearly licence to be taken out for each place at which notes are issued. Four licences are, however, sufficient to cover all places at which notes were being issued by a banker at the time of the passing of the Act of 1844.

Dealing now with our Bank of England Returns.

Issue Department.—Here we have a statement of notes issued and on the contra side, the Government debt and the item of other securities, which represent the taking over by the Bank of the lapsed power of other banks to issue notes. These two, amounting to £18,450,000, constitute what is termed "The Authorized Note Issue of the Bank." The difference between this and the actual note issue, viz. £30,326,635, must be represented by gold coin and bullion stored by the Bank, and is so shown in the statement.

Banking Department.—To begin with the liabilities side we have—

(*a*) The proprietors' capital, which consists of stock upon which dividends are paid of about 9 per cent. per annum.

(*b*) The Rest is the balance of the Profit and Loss Account, and as it is never allowed to go below three millions sterling, it is to that extent considered to be a reserve, primarily for the shareholders, but also for the public.

(*c*) Public deposits consists of surplus money deposited by the Government, and is practically the National Current Account.

Other deposits form the Bank's liability to the general public, and are made up of the current accounts of other banks, for whom it acts as banker.

Among these are included many country banks, and the whole of the London Clearing Bankers, some thirty in number. In this sum is also included the deposits of wealthy corporations and business houses.

Seven Days and other Bills.—A small item representing bills issued by the Bank in exchange for cash; bills used as a means to make safe remittances.

Turning to the credit side we have—

(*a*) Government securities, which include consols, exchequer bonds, treasury bills, etc., guaranteed by the British Government.

(*b*) Other securities, which are represented by Indian and Colonial securities, railway and corporation debenture stock, bills of exchange under discount, and securities deposited by bill brokers and others for advances. This item includes all advances to customers, whether secured or not.

(*c*) Notes. This amount forms part of the notes issued by the issue department, and shows that the balance of the notes, £29,672,960, is in circulation outside the Bank itself.

Bank Reserve.—We have seen that the notes issued amount to £48,776,635, and that the difference between this and the authorized note issue, £30,326,635, must be covered by gold coin and bullion; as, however, we find that the Bank holds in notes £19,103,675, this sum and the gold and silver coin, £30,326,635, constitute the Bank reserve, a total of £49,430,310. The fluctuations of this reserve are carefully watched in the money market, and as the strength of the Bank's position is measured by the reserve, excessive withdrawals of gold by the colonies, foreign nations, or for home service, or what is termed an active demand, will cause an advance in the bank rate. On the other hand, the accumulation of a big reserve or a sluggish market will result in a reduction of the rate, in order that cheap money may encourage commercial enterprise.

Bank Rate.—This is the rate charged by the Bank of England for discounting first-class bills. The directors, after a consideration of the Bank returns, at their weekly meeting, usually decide whether any change should be made in the rate, which is taken as being the "official standard," or "official minimum," regulating the money rates throughout the country.

The effect of an advance not only checks commercial activity at home, but also attracts money from nations where a lower rate is being allowed. To lower the rate means, not only, as before stated, the encouragement and extension of trade in the country, but also the withdrawal of cash for foreign enterprise.

At the date of the above return the rate was 4 per cent., raised

the following week to 5 per cent., and on Friday, October 19, quite unexpectedly to 6 per cent. The explanation of this exceptional advance is well put in the following passage from the *Manchester Guardian*:—

"A condition of affairs has arisen which has called for exceptional measures. For months past London, the one free market for gold in the world, has been steadily drained of the precious metal to meet urgent demands caused by prosperous trade and rampant speculation not only in America but also in Egypt. America within a comparatively short period took £12,000,000 of gold from this market, and Egypt fully £4,000,000. It had been hoped that the requirements for both quarters had been satisfied, and although the last Bank return showed a reserve about three millions less than that held a year ago, it was thought that by the Bank obtaining bar gold in the open market, the usual procedure of a diminishing reserve as the end of the year approached might be reversed. At the last moment it became known that upwards of a million sterling more would be required for Egypt, though until to-day the Egyptian banks who arrange these shipments advised the Bank of England that the exports would be insignificant. Coupled with this unexpected demand came renewed weakness in the New York exchange upon London, threatening, if not actual withdrawals from the Bank, at least a demand which would absorb supplies from the Cape, etc., while it was stated that urgent orders were actually received for gold on American account, to prevent the execution of which the Bank took the unusual step of raising their rate on a Friday. Naturally, with a reserve already seriously depleted, the Bank could not afford to lose more gold, even if it could forego the chance of obtaining fresh supplies, so that the decision to go to 6 per cent. was entirely a protective measure. It means a higher value of money generally, and it is, of course, a hardship for merchants and traders throughout the country, but one which must be borne."

As we have previously indicated, the great volume of banking business is carried on by the great London joint-stock banks, and it will therefore be interesting to note the following approximate statement of the various methods in which their resources are employed, and the average holding usually maintained by them.

Cash in hand, and at the Bank of England . . .	15 per cent.
Money at call and short notice (lent to bill brokers and short loans on the Stock Exchange) . .	10 ,,
British Government stock	10 ,,
Other investments	9 ,,
Bills discounted . . . . / Loans to customers	54 ,,
Premises, etc.	2 ,,
	100 ,,

Bankers' Charges

In the case of overdrawn accounts, the debit for interest for the accommodation amounts to a considerable sum; it is therefore well that the bankers' charges should be checked.

The commission is readily ascertained; being an agreed sum or a percentage on the withdrawals, calculated half-yearly.

In regard to interest, as many bookkeepers find a difficulty in maintaining a check on the charge, we give the following notes. Bankers will furnish particulars as to when interest upon amounts paid to them shall commence. For example, Manchester banks usually give credit as follows:—

Local uncrossed cheques . . .	from date banked.
Local crossed cheques	from date following day of banking.
London cheques	two days after banking.
Country cheques	three days after banking.

To check bankers' interest reckoned upon the daily balance, a "Bankers' Daily Balance Book" ruled as follows:—

Date.	Bankers' daily balances.		Number of days.	Products.	
	Dr.	Cr.		Dr.	Cr.

should be kept in the office.

The balance in pounds is multiplied by the number of days during which it remains at that amount, "Dr." or "Cr.," and placed in the "Products," the net total of which is multiplied

by double the average rate of interest—obtainable upon application at your bankers—and the resultant figure divided by 73,000, the quotient being the amount of interest required—received or charged—as the case may be.

If interest is reckoned upon the minimum monthly balance, the above principle would require modification accordingly.

QUESTIONS AND EXERCISES

135. State the effect of a garnishee order in respect of a judgment against a customer being served on his bankers.

136. Should the fact that an order cheque is endorsed "per pro" have any influence on the banker who is asked to collect it for a customer?

137. State the obligations of a banker with regard to cheques drawn upon him by a customer.

138. Give a short example of a customer's overdrawn account, during the half-year ended December 31, showing the amount of interest charged, and explain fully how the interest is calculated.

139. A customer passes into his credit, coin, Bank of England notes, cheques payable by the bank into which payment is made, cheques payable by other town banks, and cheques payable by country banks. Explain shortly what entries have to be made in the banker's books to record these transactions up to the point of the cheques being collected.

140. State three different classes of securities accepted by bankers against advances to customers, and briefly describe the formalities necessary in each case between the parties when the loan is effected.

141. Describe briefly the course of action which is usually followed by bankers with regard to funds in their hands :—

(*a*) In the case of a deceased customer who left a will.

(*b*) In the case of a deceased customer who did not leave a will.

142. A. B. desires to borrow £500 from his bankers, who undertake to advance this sum upon the security of A. B.'s life policy for £1000 (whole life without profits) in the Established Assurance Company. State the grounds upon which the bankers would consent to make such advance, and what steps must be taken to carry out the transaction efficiently.

CHAPTER XVII

BANK BOOKKEEPING

Cash Section—Bills Section—Securities and Investments—Customers' Accounts —Profit and Loss Section—Branches—"On the Balance"—Rebate.

There is no business where absolute accuracy in the books and system is so essential as in banking concerns, since most of their transactions take place in actual coin of the realm, and in paper money and securities representing the same.

In the single chapter which we are able to devote to the detail of bank bookkeeping, it is only possible to give an outline. The difficulty is increased by the fact that the practice of banks in different parts of the country is frequently entirely distinct, and the names for many of the books in use vary considerably.

In the provinces and in the smaller banks, the same cashier will receive and pay out cash; whilst in London a different set is appointed to pay the cash, and usually each cashier at the counter is deputed to deal with accounts of certain letters of the alphabet only.

The following are the principal books of accounts used in a bank.

I. Cash Section

1. Counter Cash Book, or Received Cash Book, or Receiving Book.
2. Received Day Book or Waste Book.
3. Sectional Cash Book.
4. Paid Cash Book.
5. Coin Balance Book.
6. Paid Waste Book.
7. In Clearing Book.

8. Country Clearing Books ("Out" and "In").
9. Goldsmith's Book.
10. Clearing Balance Books.
11. Cash Balance Book.

II. Bills Section

12. Short Bills Book.
13. Bill Journals or Diaries.
14. Bills Discounted Book.
15. Discount Ledger and Acceptance Ledger.
16. Acceptance Book.

III. Securities and Investment Section

17. Securities Register: (*a*) General; (*b*) Customers' Loans; (*c*) Stockbrokers' or other Short Loans; (*d*) Standing Orders Book.

IV. Customers' Section

18. Current Accounts.
19. Deposit Accounts.
20. Loan Accounts.
21. Loans Cash Book.

V. Profit and Loss Section

22. Current Accounts Analysis Book (debit and credit), or Short.
23. Rentals Ledger.
24. Securities sold for customers.
25. Securities purchased for customers.
26. Salaries Book.

VI. Branches Section

27. Debit Journal.
28. Credit Journal.
29. Cheques remitted.
30. Cheques received.

VII. The Journal

For the entry of the summaries in debit and credit form of the various books and registers, thus maintaining a continuous check on the accounts termed "on the balance." The book practically constitutes the aggregate postings account of all the bank's transactions, and may prove from day to day the accuracy of the bookkeeping.

In addition to these books, special records are required in the case of those concerns which have the power to issue notes, which it is not, however, proposed to deal with, as no bank carrying on business within sixty-five miles of London has power to do so, and this necessarily in England confines the privilege to the smaller banks.

I. Cash Section

The first book in the list we have given, as its name implies, is used to record the receipts as they are handed over the counter, and frequently in this book an analysis of some description is made. In small banks, and also in most provincial banks, the same tellers both receive and pay cash, in which case books one and four on the list will be amalgamated, and are then frequently treated as subsidiary Cash Books, for the balances of which the tellers are responsible, details of which appear later.

The receipts from the Receiving Book are then analyzed into a Waste Book (No. 2) to show cash received, Bank of England notes and cheques, Clearing House, country clearing, house (that is, cheques payable by our own customers) and branches. From this the debit postings will be made, or, at all events, compared with the entries made in the books—the custom of most banks being to post, as far as possible, from the various original slips, cheques, and dockets, and then to compare these entries with the figures recorded in other books.

The actual paying-in slips will then be handed to other clerks, and will be posted to the credit of the customers and analysed under suitable headings to agree with the various

ledgers or sections in the "Sectional Cash Book" (No. 3), or, as some banks call it, the "Sectional Day Book." These three books will therefore show the full double entry for ordinary receipts from the customers, the customers being credited in various ledgers as summarized by the "Sectional Cash Book," whilst from No. 2 the following books or accounts are debited:—

Cash received debited to Coin Balance Book (No. 5).

Bank of England notes and cheques debited to Goldsmiths' Book (No. 9).

Clearing House cheques debited to Clearing Balance Book (No. 10).

Country Clearing cheques debited to Country Clearing Book (No. 8).

House cheques debited to the Current Account (No. 18).

Branch cheques debited to the Branch system (VI.).

In addition to this, there are also cheques drawn on banks which may not be on the Clearing House lists, which will have to be cashed separately, and are settled by a cheque on Bank of England.

Cash paid over the counter will be recorded in the Paid Cash Book (No. 4), and afterwards will be posted from the cheques to the debit of the Customers' Current Account, and credited to the "Coin Balance Book" (No. 5). They will also be analysed as before in a Sectional Book to preserve the balance of the section.

The Coin Balance Book (No. 5) will start with the opening balance of cash and notes in hand for the day, and will be further debited with all cash received from the Waste Book, and also with any cash or notes received from the Bank of England, as shown by the Goldsmiths' Book, and credited with the cash and notes paid away, as particularized in the Cash Paid Book. The balance of this account should represent the cash in hand at the end of the day. The reason for the different treatment of "cash" and "cash and notes," as described above, is that it is the practice of the banks never to reissue a Bank of England note (which are here always referred to as "notes"), but to pay it direct into that bank with any cheques drawn upon it. Therefore as a receipt it is treated differently to cash, whilst if any payments are required partly or wholly in notes, such amount is drawn from the notes in hand which

have been received in exchange for a cheque at the Bank of England, and are therefore treated throughout as "cash" in this section.

The Paid Waste Book (No. 6) performs a similar function for payments that the corresponding book on the other side did for receipts.

The In Clearing Book (No. 7) records all cheques which are debited against us in the Clearing House, and the double entry arises by a credit in the "Clearing Balance Book" and a debit against the various customers, branches, agents, correspondents, etc., as set out in the Paid Waste Book. Such postings as before being made from the actual cheques sent in from the Clearing House.

The practice of banks varies greatly with regard to the treatment of these cheques. Some return them, every time the Pass Book is written up, to their clients in the pocket attached to the Pass Book; others return the cheques only at the half-year end, after the balance has been agreed by the customer; whilst still a third section does not return the cheques at all in the absence of a special agreement to do so, and obtaining also an indemnity from the customer. The majority of provincial banks follow this last practice.

The Country Clearing Books (No. 8) provide for cheques cleared on country banks, and do not differ from the other Clearing Books except that such amounts are allowed an additional time, varying according to the distance from London, within which notice of dishonour must be given.

The Goldsmiths' Book (No. 9) records simply the transactions of the bank with the Bank of England, and will consist of the debits paid into that bank as detailed by the Waste Book (No. 2), and the other payments made into the current account kept there. The reason for the Bank of England's cheques being treated differently to others is, that the Bank does not clear "in" through the Clearing House, that is to say, it requires cheques payable by them to be presented to them direct, and not through the Clearing House. The credit side of this account will consist simply of the cheques drawn by the bank on their current account and other payments to be made on their behalf by the Bank of England.

The Clearing Balance Book (No. 10) shows the daily dealings

with the Clearing House, particulars of which have been checked by means of the books already described, and the balance finally shown will be closed by a transfer to or from the current account at the Bank of England.

The daily totals of all the foregoing books, together with the totals of bills matured or collected (outwards and inwards), can now be grouped together, to show the accuracy of our work so far as the actual cash portion is concerned, in the Cash Balance Book (No. 11), the balance of which should, of course, agree with the actual cash, notes, etc., on hand, and this concludes the cash section of our work.

II. Bills Section

Dealing now with the bills section, we have to consider the treatment of the bills receivable from two standpoints, each of which involves different records. Bills receivable which come to the bank's hands, are under one of two headings, either they are paid into the bank a few days before maturity for collection only, to be credited on the day collected; or they are actually purchased by the bank, in which case they are known as bills discounted. Bills payable may be similarly subdivided between the bills actually accepted by the bank and bills which have been advised and are payable on behalf of customers.

For the sake of simplicity, many banks give credit for bills to be collected as soon as they are paid in, provided that they mature within a few days. They are paid to the receiving cashiers very frequently on a separate slip, and are immediately handed over to the bills department. They are then entered in the "Short Bills' Book" (No. 12), which is ruled to show the full particulars of a bill which usually appear in an ordinary merchant's books, and will be provided with two money columns, the first of which is used to record the amount of bills which will be forwarded for collection the same day, or otherwise treated as cash, whilst the outer column is used to record the amount of such bills that cannot be so treated. With regard to the inner column, the credit may be made forthwith to the customer from the paying-in slip, and the debit will be recorded to the house to which it is forwarded for collection if it is not a

local bill, or otherwise to the Clearing House Account as a bill for clearing, and thus into the cash system. Items recorded in the outer column will be sorted according to the due date, and then entered in a diary which reserves a page for each day and records the number of the bill and the amount to be dealt with as it falls due. A distinguishing note will also be added to show which of the bills have to be forwarded a few days in advance for collection in other towns.

All bills discounted will be recorded in the Bills Discounted Book (No. 14), which shows particulars of the bill as before, the amount, the rate of discount, period of bill unexpired, and consequent amount chargeable. The credit for the nominal amount of the bill should be credited to the customer, and the charges for discounting debited to him, although this is not the invariable custom.

The Discount Ledger and Acceptance Ledger (No. 15) are used to show the total amount of bills discounted for any one customer, so that no more shall be advanced to him than may be considered a suitable amount, and the Acceptance Ledger is a similar book to show the acceptances the bank may hold of any one firm. These books are collateral to the general system, and do not involve any postings in the ordinary books of account.

The Acceptance Book itself is used to record the bills actually accepted by the bank on behalf of its customers.

Bills advised by customers for payment will be noted in a special diary, and on presentation will be treated in a similar manner to an ordinary cheque.

III. Securities and Investment Books

This section of our work may be broadly divided into registers, which give a consecutive number and place to all securities held by the bank, whether its own or held by the bank for customers, and the ordinary Investment Books and Ledgers.

The first class do not enter into the accounting system, and are more in the nature of a directory to the strong-rooms, where the bank's own securities are held, and also its customers' securities. The latter section will include those deposited for safe keeping, and also those given for the purpose of obtaining

an advance from the bank. The Investment Ledgers themselves are, of course, ordinary books of account, and do not call for special comment, following frequently the usual system of other houses holding considerable investments, such as insurance companies.

IV. Customers' Section

This important section is one in which the greatest differences exist as to practice and variety of treatment and rulings of books and accounts. It is the usual practice of London banks, if a customer should require an advance, to give it to him by means of a separate "loan," which is subject to a standard rate of interest, and always remains fixed at that figure, insisting that the floating balance between him and the bank should be a credit on the current account. The majority of provincial banks, however, allow their customers, requiring such an advance, to overdraw their current account so that such account may be either a debit or a credit, and the interest will be charged not on the fixed amount of the loan, but on the actual debit balance of the current account from time to time.

The form of these ledgers may be that of an ordinary business ledger with debit and credit rulings, or it may appear with a special ruling to show the balances daily on the account.

Date.	Particulars.	Fo.	Dr. postings.			Cr. postings.			Balance.		
			£	s.	d.	£	s.	d.	£	s.	d.

If it is the practice of the bank to allow interest on the current account, probably columns will be added to provide for the necessary details of the figure to be charged.

Date.	Particulars.	Dr. postings.			Cr. postings.			Balance.			Days	Product.
		£	s.	d.	£	s.	d.	£	s.	d.		
June 30	By balance .				320	0	0	320	0	0	30	28,800
July 30	To cheque .	200	0	0				120	0	0	60	21,600
Sept. 28	By bills . .				350	0	0	470	0	0	10	14,100
Oct. 8	" " . .				30	0	0	500	0	0	84	126,500
Dec. 31	" interest .				2	12	3					
	To commission		5	0								
	" balance .	502	7	3								
		702	12	3	702	12	3					191,000
	By balance .				502	7	3	502	7	3		

This method of calculating interest is particularly suitable for recording interest on current accounts, where the rate charged or allowed on the account is liable to fluctuate, as in the case of banks, who usually vary the rate in accordance with the official bank rate. The formula on which it is based is, that the number of pounds in the balance, multiplied by the number of days which such balance stands, and twice the rate of interest charged or allowed, divided by 73,000, equals the amount of interest in pounds.

The example given will show how this works. Our opening credit appears in the books as £320, and this amount is extended into the balance column. On July 30 a cheque is drawn for £200, which is debited against the account, and the entry is then made reducing the balance to £120, and at the same time we fill in the number of days the old balance stood, viz. 30 days, and then multiply that figure £320 by 30 (days) and 3, which is twice the rate of interest which we are allowing on this account, which is $1\frac{1}{2}$ per centum. If any difficulty in remembering this rule is experienced, it can be easily brought back to the mind by thinking of the old school formula. "Principal multiplied by rate per cent., multiplied by time in years, divided by one hundred, equals interest," as will be seen by applying this form to our example:—

$$\frac{\text{Principal £320} \times 30 \text{ (days)} \times 1\frac{1}{2} \text{ (per cent.)}}{100 \times 365 \text{ (days in a year)}} = \text{interest}$$

Therefore multiply both sides of our compound fraction by two, and we find—

$$\frac{320 \times 30 \times 3}{100 \times 365 \times 2} = \frac{28,800}{73,000}$$

We therefore place the 28,800 in our products' column, and at the year end divide that figure and the other products which are similarly obtained by their common divisor, 73,000.

If the rate of interest should be changed during the half-year, all that is necessary is to make a break at the date when the change took place: suppose, for example, that up to July 20 the rate of interest allowed was 1 per cent. only, the entry would be made as follows:—

		£		£
June 30.	By balance	320	20 days =	12,800
July 20.	„ interest changed to 1½ per cent.	320	10 „ =	9,600
	New product as against 28,800 at 1½ per cent. for the whole time			22,400

Difference 6,400 ÷ 73,000 = £0 1*s.* 9*d.*, which is exactly (of course) ½ per cent. on £320 for 10 days.

Separate columns are sometimes provided for the debit and credit interests; or if most of the current accounts are in credit, the debits may be entered in red ink.

The current accounts in many large banks are entered in books containing only one account each, the books being kept alphabetically in boxes, each of these boxes being treated as if it were a single ledger. This, of course, does not affect the principle in any way.

Deposit accounts are sometimes treated in the same way, or they may be kept in an ordinary bound ledger. This will probably depend on the nature of the deposit account, and the terms of the deposit, but it does not call for any bookkeeping comment.

Loans accounts will be treated in a similar manner on the opposite side, of course.

The Loans Cash Book, or Loans Register, is generally used in connection with short loans, which are treated in this book on the tabular system. These two books apply more to London banks than to provincial concerns.

V. Profit and Loss Section

In this section we desire to record all those items which go to make our bank profits, and we will therefore deal with these consecutively. The charges made on current accounts by way of interest and commission are the first dealt with by provincial

banks. At the end of the half-year the accounts are all debited with the commission, either at the agreed percentage on the turnover, or at the stipulated amount if a definite figure has been arranged. The interest debit or credit is also inserted by the calculation of the products, for which "ready reckoners" exist. At the time these entries are made, they are entered either in the Current Account Analysis Book, or (in large banks) on sheets which are subsequently bound or otherwise secured in the same way that the Application and Allotment Sheets are bound in the case of a large allotment. From this book or the sheets will be ascertained the full amount of all charges made or interest allowed on every account in the "current" section. Similar entries will be made for the other items charged against or allowed to customers in the various customers' ledgers.

The interest on short loans which appears in the Loan Register will usually be paid by cheque at the time the loan is repaid, and will be posted direct to the credit of Interest Account.

Discounts on bills will appear in detail on each bill as it is entered in the Bills Discounted Book, the daily total being carried to the credit of Discount Account through the Journal.

Rents receivable will be recorded in a special Rental Ledger and Account, from which the credit to Profit and Loss Account will be obtained.

Income from investments will be credited by means of a docket, which will debit an investment in the Investment Ledger, and credit the Income Account as each dividend falls due.

Certain customers also ask their bankers to buy or sell securities for them, for which the banker makes a charge, sometimes on the customer direct, at other times by payment by the broker of a proportion of his commission. These items are, of course, recorded in suitable books, showing the amount payable to or by a customer and broker respectively, and the difference between these items, which is the bank's profit, is posted to the account in the Nominal Ledger.

The Salaries Book (No. 26) is in the ordinary form for such books, and does not call for any special comment.

VI. Branches, in the case of banks, are treated very much

in the same manner as other banks or agents might be treated, excepting for the inclusion at the year end of the profits they have made and the incorporation of their balances with the head office figures, in order to prepare a balance sheet. This portion of the subject is fully treated in other parts of the book, and the student is referred there for the method in which this is done.

The only book on our list which has not been specifically mentioned is now the "Standing Orders Book," which records any periodical payments or collections which have to be made by the bank on account of its customers. This book, like the Securities Register, to which department it belongs, is a statistical book, setting out the particulars of the payment to be made, for whom it is made, to whom, and the amount, and a similar book will record the coupons which have to be collected. In the former case, a docket will be filled in and forwarded to the receiving bank or person, who will present it in the ordinary way with the cheques. The collections will be treated also as if they were cheques, but in this case the clearing regulations, which do not affect the bookkeeping, however, are rather different.

It has previously been pointed out that provincial and London customs frequently differ, and this is chiefly in the treatment of the "tellers," banknotes, and the customers' current accounts.

The first point is when the same teller pays and receives cash. In many banks where this custom prevails, each teller has his own cash book, which will include Nos. 1 and 4 of our list (the Counter Cash Book, received and paid), and will draw on the chief cashier if he runs short of money, or pay to him any surplus over his immediate requirements, as the case may be. Under these circumstances, he balances his own book separately, and his totals are included in the Cash Balance Book, independently of the book kept by the chief cashier.

The London banks, as stated in this chapter, never reissue notes of the Bank of England which come to their hands, but many provincial banks do so. If this system is adopted, the notes paid over the counter are kept distinct from those in hand, and are sorted at the end of the day and a special number is written on each note, which acts as our bank's reference to it for the future. To do this an extra book or books will be

required to record this, and the method of dealing with the notes, as described earlier, will be modified accordingly.

VII. The Journal

On the Balance.—To maintain a constant check on the balancing of the books, the bank will summarize at the end of each day the whole of its balances in a Journal, the figures in total being dealt with so as to effect the balancing of each separate section. The Journal in this case is usually in a similar form to a Cash Book in a trading concern, and each day will be added and balanced separately. The various columns will show the source of the information, the account to be debited or credited in the General Ledger, appropriate columns for posting and other references, and the amount.

As we have, on pp. 230, 231 already furnished an example of the final accounts of a banking company, we may ask the student to prepare Revenue Account and Balance Sheet from the following statement.

The following items may be taken as representing the position of the bank on January 1, 1905, and its aggregate transactions during the year 1905. Post them to their respective accounts, and draw up a Profit and Loss Account and Balance Sheet.

Exercise

	£
Paid-up capital, January 1, 1905	100,000
Undivided profits of 1904	4,658
Liabilities to customers on current accounts, January 1, 1905	326,300
Liabilities to customers on deposit accounts, January 1, 1905	235,842
Overdrafts and loans, January 1, 1905	287,400
Bills receivable in hand, January 1, 1905	165,200
Investments	140,000
Cash in hand	24,200
Cash at call and short notice	50,000
Cash paid in by customers on current accounts	2,417,000
Cash drawn out by customers on current accounts	2,356,000
Cash paid in by depositors	664,000
Cash withdrawn by depositors	586,000

Bills receivable discounted	£297,000	£
Less discount charged thereon	10,500	
	———	286,500
Cash paid out for part of same	6,500	
Balance credited to customers	280,000	
	———	286,500
Bills receivable, matured and paid during the year . .		257,000
Deposit interest accrued and paid during the year . .		6,000
Deposit interest accrued to December 31, 1905, but not paid		7,500
Interest received on investments		4,500
Interest accrued on investments to December 31, 1905		3,000
Consols purchased, £100,000 at 95		95,000
India 3½ per cent. sold		25,000
New premises, cost of freehold		12,750
Colonial bonds purchased		150,000
English railway debentures purchased		100,000
Managers' and clerks' salaries paid		6,950
Directors' fees paid		2,000
Income tax paid		865
Interest and charges debited to customers		24,250
Sundry bank expenses, cheque-books, etc., paid . .		1,468
Rent, taxes, etc., paid		2,800
Cash advanced on short notice		308,000
Cash advanced on short notice, repaid by brokers . .		230,000
Interest received from brokers		4,975
Rebate on bills discounted		1,525
Loss by bad debts written off		2,345
Interim dividend paid shareholders 7½ per cent. . . .		7,500
Call made of £5 per share on 10,000 new shares . .		50,000

Rebate.—As on the discounting of bills, Discount Account was credited with the charge to the customer, it will be readily understood that an apportionment must be made of the discounts which belong to the current and the following periods; for instance, a three months' bill discounted on December 1 should have one month's discount credited to the Revenue Account of December 31 accounts, and the other two months to the next period's profits. Hence we have a Rebate Account, representing discounts to be carried forward as a credit to the subsequent accounts.

Bills accepted for Customers.—Reference to p. 230 will show that the liability of the bank for acceptance of customers' drafts is stated on the debtor side of the balance sheet, and is counterbalanced by the entry on the credit side of a like sum, for which the customers are liable to the bank.

QUESTIONS AND EXERCISES

143. Name the various sections into which bank bookkeeping may be divided.

144. Give an example of a customer's account in a bank ledger.

145. Explain the method of calculating interest on a current account.

146. What is meant by "on the balance"?

147. What is the object of a Rebate Account?

148. After writing up the Profit and Loss Account, the General Ledger balances of the Conservative Bank, Ltd., as on December 31, 1901, were as follows: paid up capital, £1,500,000; cash at Bank of England and in hand, £2,600,980; Customers' Current and Deposit Accounts, £17,580,000; bills discounted, loans and advances, £14,482,000; freehold premises, £380,000; rebate on bills discounted, not yet due, carried to next account, £24,300; reserve fund, £1,200,000; English Government securities, £1,250,000; other Government securities, £520,000; Profit and Loss Account (undistributed balance), £110,680; securities pledged with public bodies, £81,000; Indian and colonial securities, £1,101,000.

On the same date (December 31, 1901) the acceptances on behalf of customers, and for which they were liable, appeared in the "Acceptances Book" of the bank at £1,725,420.

Prepare a Balance Sheet as on December 31, 1901.

149. Criticize the following Balance Sheet. State what improvements you would suggest, and your reasons for them.

BANK OF NEW ENGLAND, LIMITED

Liabilities

	£
Capital (£3,000,000 in 100,000 shares of £30 each, on which £20 per share has been paid up)	2,000,000
Reserve Fund	500,000
Notes in circulation	522,750
Bills payable	770,347
Deposit and Current Accounts	8,473,421
Other liabilities	114,214
Profit and loss	53,148
	£12,433,880

Assets

Coin and cash balances with bankers	1,303,756
Bullion in hand and in transit	173,770
Money at call and short notice, bills receivable, Government securities and other securities in London, etc.	2,667,636

	£	
Investments in the colonies, viz.:—		
Colonial government securities . . .	878,432	
Municipal securities	119,953	
Other securities	266,201	
		1,264,586
Bills discounted		2,276,421
Other advances and securities and debts, etc., due to the bank		3,975,489
Landed property, premises, etc..		772,222
		£12,433,880

CHAPTER XVIII

CHEQUES

Definitions and Essentials — Endorsements — Dishonoured — Lost Cheques—Crossed Cheques—Not Negotiable Cheques—Clearing—Circular Notes—Letters of Credit.

One of the greatest conveniences of modern banking is the facility afforded in the settlement of accounts and the transfer of debts by means of cheques. First the bearer cheque, then the order, later the crossed and not negotiable cheques have been developments of the banking system of incalculable service to the business world.

By cheques, economy of time and labour and safety of remittance and payment are secured. Week by week millions of accounts are settled without a coin being needed in the settlement of indebtedness. The cheque system is now highly developed, and is one of which we, as Englishmen, may well be proud. We wish to pay a subscription of a guinea, or to pay an account of £500 to a creditor hundreds of miles away, and the useful cheque is an ever-ready instrument at our hand to do the service by transferring the funds available at our banker's to the bank of our creditor, and that, too, with the minimum amount of risk and expense.

Definition.—A cheque is a bill of exchange drawn on a bank, payable on demand.

The essentials to remember are, that it must be an unconditional order and addressed by one person to another, and be payable on demand.

Manchester, November 1, 1906.

1*d.*

To the Union Bank of Manchester, Limited.

Pay Mr. A. Reader———————————or order.

Fifty Pounds———————————

£50 0*s.* 0*d.* Alfred Nixon.

Examination of the above cheque will show that it is an order from Alfred Nixon, termed the "drawer," to the Union Bank of Manchester, termed the "drawee," to pay on demand to the order of A. Reader, termed the "payee," the bank being the payer, a specified sum of money.

The above cheque is said to be "in order," *i.e.* all the particulars required by the banker are filled in properly, and on endorsement by the person in whose favour it is drawn (A. Reader) must be paid by the bank, provided sufficient funds, or credit is available.

Dealing with the various points in connection with the cheque, we find that each one must bear a penny stamp, usually an impressed one; but an adhesive one may be used, should occasion occur for the drawer to make out the order on other than the printed forms supplied in book form by the banker. Only the drawer or the banker on whom it is drawn may stamp an unstamped cheque, and not any intermediate holders. Poor Law Guardians and Government departments, and also trustees in bankruptcy drawing on local accounts, are exempt from the stamp duty.

It was until recently a fairly general custom to attach a receipt with the cheque, with the idea of the penny stamp serving for both cheque and receipt; but this is illegal, each requiring a penny stamp, that is, if, in the case of the receipt, the amount is for £2 and over.

Date.—Cheques may be issued (*a*) undated, (*b*) dated for a Sunday, (*c*) post dated.

(*a*) The holder may insert the date.

(*b*) A cheque bearing a Sunday's date would be valid, but would not be payable until the Monday.

(*c*) Post dated, that is, bearing a date in advance of the day of issue. This form of cheque is frequently issued by those who, whilst unable to pay the amount at the time, hand the cheque to pressing creditors as an earnest of their intention to meet their liability on a fixed day. Creditors often find it advisable to accept such cheques.

Such cheques are valid in the hands of a holder, but a banker will refuse payment until the date the cheque bears. Should a post-dated cheque be paid by the banker there would be no penalty, but the cheque could not be debited against the

customer until the date of the cheque, which, of course, involves risk on the banker's part.

Amount.—Should the writing and figures differ in regard to the amount, the banker may either return the cheque as not in order, or pay the amount in accordance with the written sum.

If the amount is given in foreign currency the banker is not bound to pay, but should he do so he converts into sterling at the current rate of exchange at the place and on the day of payment.

Payable to.—Cheques may be payable to—

(*a*) "A. Somebody or Bearer," in which case no endorsement is required.

(*b*) Payable to "A. Somebody or order," in which case it would require the endorsement of A. Somebody prior to negotiation. Although order cheques are endorsed by the person to whom payable, a banker could be compelled to honour the cheque without such endorsement, in which case he would require a receipt to prove payment.

(*c*) Payable to self or order, requiring the endorsement of the drawer.

(*d*) Payable to order, without any name being given, would require endorsement of drawer.

(*e*) Payable to "Wages or order" would be considered to be a bearer cheque, needing no endorsement.

"Pay A. B." is negotiable. If it is desired to make the cheque payable to a specified person only, "Pay A. B. only" and "not transferable" should be written horizontally.

A. Nixon's account }
Payee's account } is transferable.

Should a bearer cheque have the word "bearer" crossed through, the cheque would be regarded as an order cheque. If the word "order" were altered to "bearer," it would require the initials of the drawer to verify the alteration.

All material alterations, as to date, name, order, to bearer, amounts, should be initialled by the drawer, and should there be several drawers, by all of them.

Endorsement.—Endorsements are usually written on the back, but there is nothing to prevent the endorsement being written on the face of the cheque. The endorsement should be in ink, but may be in pencil; should it be by pressed stamp,

the paying banker will require the endorsement guaranteed by another banker.

Endorsements may be either (*a*) general or blank, (*b*) special; the former being merely the signature of the person to whom it is payable, and the latter an instruction from the endorser to pay it to the order of another person, as—

"Pay A. Reader or order."
Alfred Nixon.

An individual endorsing a cheque should endorse it as on the face of the cheque, without any courtesy title; thus, a cheque payable to Miss Ann Jones should be endorsed "Ann Jones." In the case of firms or companies, the endorsement should show the authority of the person making the endorsement for the firm, as—

per pro Johnson & Co.
J. H. Williams.

In the case of executors, the signature of one executor for himself and co-executors would be in order, but with trustees the endorsement of each trustee would be necessary.

Frequently, in drawing a cheque the payee's name is spelled incorrectly, in which event the cheque should be endorsed as given, and also with the correct signature; thus, a cheque payable to A. Nickson when A. Nixon was meant, would be endorsed in both ways.

A cheque payable to a married lady's order, as Mrs. John Jones, should be endorsed—

"Ann Jones,
"Wife of John Jones."

Should a cheque be payable to an illiterate person, as even yet occasionally happens, it should be endorsed as follows, and the mark witnessed—

his
Arthur × Slowboy.
mark

Witness,
Jack Sharp,
Bank Street,
Bury.

The endorsement of a person who unmistakably shows he is not sober should also be witnessed, as also the payment of the money to him.

Dishonour of Cheque.—A banker will stop the payment of cheques upon—

(*a*) Knowledge of bankruptcy, or act of bankruptcy, in which case the funds are held for trustee.

(*b*) Notice of drawer's death.

(*c*) Receipt of garnishee order.

(*d*) Notice from the drawer authorizing him to refuse payment of the cheque presented.

(*e*) For want of funds on current account in credit, or exceeding allowed overdraft.

(*f*) For some informality, or the cheque not being in order.

Indication of the above is given by the banker in various forms, usually—

R/D = Refer to drawer.
I/F = Insufficient funds.
N/S = Not sufficient funds.
Not in order.
Writing and figures disagree.
No effects.
Effects not cleared.
Account closed.

If a cheque has been cut or torn, payment would be generally refused unless evidence is given that it has been accidentally done, and followed by a banker's signature.

It is useful to note that a cheque is paid when the money passes over the counter, and the banker cannot legally demand its return.

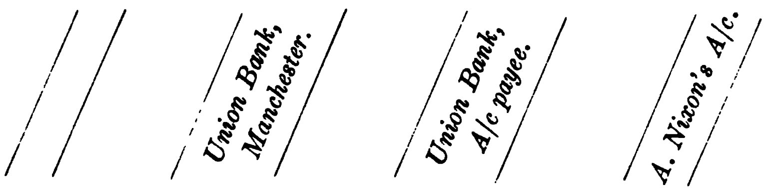
Lost Cheques.—In such an event, all parties to it should be advised; the drawer should be requested to stop payment, and the loss advertised. If the payee selects the channel through which the remittance is made, or the ordinary means of communication are made use of, the loss falls upon him, and he must find the indemnity requisite before a new cheque is issued. On a satisfactory indemnity being offered, he can insist upon a new cheque being given to him.

General.—A cheque is not legal tender, but a conditional payment, only suspending the right of action until the cheque

has been presented. It may be added that the cheque is accepted conditionally upon its being met.

Should a cheque be dishonoured in error, the right of action for damages is with the drawer, and not with the holder of the cheque, who cannot sue the banker. With a lost cheque the banker will only accept the instructions of the drawer in stopping its payment.

Crossed Cheques.—So extensive is the use of cheques in the payment of accounts, and so many are forwarded by post, that something safer than the order cheque was found to be essential. This safeguard is supplied in the crossing of cheques. Originating from the Clearing House, the custom is now almost universally adopted by business houses. The crossing consists of two transverse lines written across the face of the cheque, without or with the words "& Co.," or the name of a bank. Such crossing is an instruction to the paying banker that the cheque must only be paid to another banker. Generally, the crossing is made by the drawer at the request of the customer. Cheques are very commonly printed with the addition of the crossing; the holder of an uncrossed cheque usually crosses the cheque for payment at the bank.



The first is termed a general crossing, and means that the cheque may be paid through any banker.

The second is termed a special crossing, and is an instruction that the cheque must be paid to the bank named in the crossing for collection by them.

The third and fourth are also special crossings made to insure the cheque being paid to the account of the person or firm in whose favour it is drawn. Although there is uncertainty as to a banker's liability in disregarding this instruction, the instruction is complied with by the banker.[1]

[1] In a recent case, in which a cheque payable to the firm and crossed "A/c payees" had been credited to a partner's private account, the banker was held liable for neglecting the above instruction.

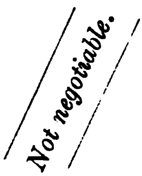
It will be observed that there must be two lines to constitute the crossing, therefore one line would not constitute "crossing."

The name of a banker without the lines would also be recognized as a crossing.

Further, there must not be a double crossing.

In paying crossed cheques to persons who have no banking account, some inconvenience in the way of getting the cheque passed through the account of another firm may be caused; to obviate this, the crossing may be cancelled by the drawer writing across the cheque "pay cash," and adding his signature to the alteration. Of course an open cheque might be issued to prevent this cancelling of the crossing.

Not Negotiable Cheques.—The cheque is a negotiable instrument, that is, one, the property in which is acquired by every person who takes it in good faith and for value. A bearer cheque is transferable by delivery, an order cheque by endorsement and delivery.



By adding to crossed cheques the words "not negotiable," notice or warning is given to any one taking such a cheque that in doing so he has no better title to it than the one from whom he received it, and thus may be liable to refund the amount of such cheque to the person in whose favour it is drawn. Although these cheques are transferred, the intention of making them not negotiable is to limit their being dealt with except for collection by the banker; an ordinary crossed cheque, on the other hand, may be transferred again and again prior to its collection.

By the Bills of Exchange (Crossed Cheques) Act, 1906, a banker crediting a customer's account with a crossed cheque before receiving payment of it is protected by sect. 82 of the Bills of Exchange Act, 1882. This annuls a well-known case in which the bank was held liable to make good the proceeds of certain stolen crossed cheques, on the ground that as these cheques were *credited at once* to the customer's account the

bank was collecting the money for itself, and therefore not protected by sect. 82. This section enacts that when a banker in good faith and without negligence receives payment for a customer of a cheque crossed generally or specially to himself, and the customer has no title or a defective title thereto, the banker shall not incur any liability to the true owner by reason of having received such payment.

Clearing of Cheques.—Consequent upon the great increase of remittances and payments by cheque, and the growth of joint-stock banking, the bankers found it necessary that in place of sending clerks to the various banks for the collection of cheques, a more convenient method should be arranged. The Clearing House system was therefore established, by which the representatives of each bank meet and exchange the cheques they hold upon other banks for cheques drawn upon them, the difference being settled by transfer notes upon the Bank of England. In this way no hard cash need be used in settlement of the vast number of cheques transferred in this manner. Some idea of the immensity of the transactions may be formed from the fact that the annual turnover of the London Clearing House is given as six thousand millions sterling.

Circular Notes.—To save travellers inconvenience and risk in carrying cash about, many banks issue letters of credit, which are addressed, together with a general letter or order to the bank's agents on the Continent, authorizing them to pay to the order of the traveller certain sums of money. The notes are issued for sums of from £10 and upwards, and are converted into foreign money at the current rate at the time and place of payment.

Letters of Credit.—These instruments are also issued for the convenience of travellers in order to place them in funds at the various centres at which they may call.

They may be either general or special, the former being directed to the bank's foreign agents at the places required, and the latter being directed to some foreign bank.

Example

CIRCULAR NOTE

________ ____________Bank.

No. ____

Lettre de Crédit Circulaire pour £10 sterling.

Londres, ce , 190 .

A Messieurs les Banquiers
désignés dans nos lettres d'indication.

Messieurs,

Cette lettre vous sera remise par M. dont vous trouverez la signature dans notre Lettre d'Indication susdite. Je vous prie de vouloir bien lui compter sans frais quelconques la valeur de dix livres sterling au cours à usance sur Londres contre sa traite ci-jointe sur cette banque.

J'ai l'honneur d'être, Messieurs,
Votre très-obéissant serviteur,
Gerant,
Secrétaire.

On the other side—

____________________Bank,
Londres,

£10.

A sept jours de vue préfix payez à l'ordre de M. dix livres sterling, valeur reçue.

à
ce 190 .

The circular notes are accompanied by a letter of indication as follows :—

Londres, ce 1906.

Messieurs,

Le porteur de cette lettre, M. pour lequel nous réclamons vos attentions, est muni de nos billets de change circulaires pour son voyage. Nous vous prions de lui en fournir la valeur sur son double acquit au cours du change à usance sur notre place et sans déductions de frais.

Si la ville où il en touchera le montant n'a pas de change direct sur Londres, vous voudrez bien en combiner un avec la Place Cambiste la plus voisine.

Vous observerez que tout Agio sur espèces d'or ou d'argent, et tous frais extraordinaires dans le cas d'un remboursement indirect, doivent être supportés par le porteur et ne peuvent être à notre charge.

Cette lettre devant accompagner nos billets circulaires doit rester dans les mains de leur porteur jusqu'à leur épuisement.

Nous avons l'honneur d'être, Messieurs,

Vos très humbles et très obéissant serviteurs,

GERANT,

Secrétaire.

The letter of indication must be produced when a circular note is presented for payment, and the holder then endorses it. The firm paying the amount must see that the signature agrees with that on the letter of indication.

LETTER OF CREDIT

____________________Bank, Ltd.

No. ---- £

Manchester, _______________190 .

To____

____

DEAR SIRS,

We beg to open a credit in favour of_______________ for the sum of____________________ to be drawn for by drafts on________________________ and we hereby undertake to honour the said drafts if in order on presentation.

Please note that the credit is in force for______months from date hereof, that each draft must be plainly marked as drawn under the credit, and that the amount of each draft must be inscribed on the back of this letter.

The letter itself should be cancelled and attached to the final draft.

We are, dear sirs,

Yours faithfully,

*per pro*____________________Bank, Ltd.

____

Manager.

Entered.

QUESTIONS AND EXERCISES

150. Give the definition and essentials of a cheque.
151. Under what circumstances will a banker refuse payment?
152. What should be done in the case of a lost cheque?
153. Briefly describe what is meant by the clearing of cheques.
154. State generally what you know of the law relating to crossed cheques.
155. What is the effect of crossing a cheque

    (*a*) with, or

    (*b*) without the words "not negotiable"?

156. How should the following cheques be dealt with by the receiving banker: (*a*) undated cheques; (*b*) cheques presented after notice of the drawer's death had been received; (*c*) cheques dated six months prior to presentation; (*d*) cheque dated on a Sunday?

157. State whether the undermentioned endorsements of cheques are in order; and if, in your opinion, irregular, explain in what way the endorsements should be amended:—

(*a*) A cheque drawn in favour of "James Smith, or Order" is endorsed

his
"JAMES ✕ SMITH"
mark.

(*b*) A cheque drawn in favour of "Robert Radborn, Liquidator of the Hawk Motor Co., Ltd., or Order" is endorsed

"ROBERT RADBORN."

(*c*) A cheque drawn in favour of "George Good and Sons, or Order" is endorsed

"GEORGE GOOD AND SONS, A.R.C."

(*d*) A cheque drawn in favour of "Mr. Walter Long's Executors, or Order" is endorsed

per pro "Walter Long's Executors, GEO. R. LONG."

CHAPTER XIX

BILLS OF EXCHANGE

Functions—Definitions and Essentials—Stamp Duties—Acceptances—Endorsements—Signature—Presentation — Dishonour — Rights and Liabilities of Parties to a Bill—Accommodation Bills—Case of Need—Acceptance for Honour—Foreign Bills—Entry in the Accounts—Exchange.

HAVING given consideration to that form of bills of exchange known as cheques, let us proceed with some notes on those which, instead of being drawn on a banker, are drawn by one business house upon another for the settlement of debts, and which are known as drafts and acceptances.

There are two classes of bills—inland and foreign; and the following forms—cheques, promissory notes, and drafts.

Functions of Bills.—1. In its ordinary form, the bill fixes the amount of a debt, and is taken to settle the indebtedness. In this way the creditor has the advantage of having the amount placed in such a form as to make it negotiable or transferable to others, or by discounting may obtain a sum representing its present value. To the debtor or acceptor it is convenient to have a definite time fixed, in which he may provide the necessary funds at maturity. In this way the larger houses enable thousands of shopkeepers and small trading firms to purchase larger stocks, and give the opportunity of turning such goods into cash with which to meet the drafts drawn upon them, payable at from three to six months after the delivery of the merchandise.

2. Our foreign trade owes much to the service of bills. The manufacturer or shipper in exporting draws upon the consignee, or it may be, as per arrangement, upon commission houses in this country, or by hypothecation of the documents, that is, the bill of lading and the bill of exchange, accompanied by invoices and insurance policy, obtains advances from or discounts

the bills with his bankers. The banker, in turn, will forward the documents to his foreign agents, and either receive cash for or satisfactory acceptance of the draft prior to the delivery of the shipment to the consignee.

3. Another common form of a bill's functions is to enable the English merchant, immediately on shipment of goods to a Continental house, to draw upon some English firm, at, say, 30 days, as instructed by the foreign purchaser, for the amount of the invoice, and to obtain the proceeds by discounting the bill.

The student will thus realize how largely international trade is dependent upon these debt-transferring instruments in facilitating the settlement of mutual liabilities between the mother country, her colonies, and foreign nations.

As a simple illustration: Cross & Co., of Manchester, ship to Agent & Co., of Antwerp, goods value £500; the latter, to whom A. Merchant, of London, is a debtor, instruct Cross & Co. on shipment to draw upon Merchant for the amount at 30 days. In this way Agent & Co. settle their indebtedness to Cross & Co. by the transfer of Merchant's debt, and thus the London and Antwerp firms are saved the expenses of remittance to and from the Continent, and the Manchester house is a gainer by the arrangement.

Definition.—A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person or bearer.

Put shortly, we may say that a bill is an order from one person to another to pay to a stated person on demand, or at a fixed future date, a certain sum of money. These points may be observed to be included in the following draft:—

£500 0*s.* 0*d.* Manchester, October 1, 1906.

5s.

Three months after date pay to the order of David Copperfield the sum of Five Hundred pounds for value received.

To OLIVER TWIST,
Lord Street,
Liverpool.

SIDNEY CARTON.

When completed the above bill will bear three signatures on it, namely, that of—

(*a*) Sidney Carton, the drawer.

(*b*) Oliver Twist, the drawee, and, after acceptance, the acceptor.

(*c*) David Copperfield, the endorser or payee.

The bill may be negotiated or transferred by endorsement, and delivered to another person or firm, and bear the endorsement of each firm by whom it is transferred. In the case of foreign bills, it may happen that the bill bears so many endorsements that a slip called an "allonge" has to be added for additional endorsements.

Should this order not be carried out at the due date, provided that presentation has been made by the holder of the bill at the place named for payment, or if not stated, then at the acceptor's business or private address, the bill is dishonoured. As proof of its presentation and dishonour the bill would generally be noted by a notary, who thus certifies the fact of dishonour; should a public notary not be available, presentation may be certified by some responsible person, whose certificate should be witnessed by two responsible persons. Noting of inland bills is not requisite, but the noting and protesting of foreign bills is essential.

It is advisable that notice of dishonour should be given by the holder to each party and endorser of the bill, so that the claim upon each may be maintained. Usually the holder would claim from the last endorser, as the one from whom he received it; and each endorser upon the previous endorser, and so to the drawer, who in turn would hold the acceptor liable for the amount of the bill and the expenses.

Requisites of a Bill.—The following points in regard to Bills need our consideration.

(*a*) Stamp.

(*b*) Date.

(*c*) Place of issue.

(*d*) Tenor, or time of payment.

(*e*) Amount.

(*f*) Name and address of drawee.

(*g*) Name of payee, unless to the drawer's order, or to bearer.

(*h*) Drawer's signature.

(*i*) Acceptance, which generally includes where payable.

(*a*) *Stamp.*—All bills drawn in the United Kingdom must be drawn on stamped paper. If payable on demand, at sight, on presentation, or within three days after date or sight, a penny stamp. Other bills of exchange and promissory notes of any kind, except bank notes, an *ad valorem* stamp of—

	Not exceeding	£5	1*d*.
Exceeding £5 and	" "	£10	2*d*.
	" "	£25	3*d*.
	" "	£50	6*d*.
	" "	£75	9*d*.
	" "	£100	1*s*.

And for every £100, and also for any fractional part of £100, 1*s*.

In the case of bills drawn and expressed to be payable out of the United Kingdom, when actually paid, or endorsed, or negotiated in the United Kingdom, the stamp duty is reduced to—

Where the amount exceeds £50 and does not exceed £100—6*d*.
" " " £100, for every £100 or fractional part of £100—6*d*.

Notice specially that, unlike a draft on demand, which only requires a penny stamp, a promissory note payable on demand requires an *ad valorem* stamp.

If the amount be stated in foreign currency, the stamp must cover the sum, calculated at the rate of exchange on the day of the date of the bill.

Whether the rate of interest is mentioned in the bill or not, the stamp need only cover the principal.

As it happens that bills after being drawn are not accepted, or even presented for acceptance, it may be observed that the amount of the spoiled stamps may be recovered if application be made within six months.

(*b*) *Date.*—The date, or what he considers to be the correct date, may be inserted by any lawful holder, but he should advise the acceptor of the date inserted.

A bill may be dated prior or subsequent to the date on which actually made, or to the date of the stamp, and be dated on a Sunday. Although it is irregular not to date a bill, the effect of the omission does not make it invalid.

(*c*) *Place of Issue.*—This is usually stated on a draft; the bill would be valid even though the place where it is drawn is not specified.

(*d*) *Tenor, or Time of Payment.*—This may be at sight, on demand, after date, after sight. On inland bills after date or after sight, there is an allowance of three extra days for payment, termed "days of grace." Thus the bill given on p. 272 would be payable on January 4. No allowance is made for lacking days; thus a three months' bill, dated February 28, would be payable May 31, whilst one dated March 1 would not be payable till June 4; but note that such a bill dated March 31, would be payable July 3.

In the event of a bill being payable on Sunday, Christmas Day, or Good Friday, it is payable on the preceding business day; if on a Bank Holiday, or a Sunday next after a Bank Holiday, then on the succeeding business day.

(*e*) *Amount.*—In addition to the statement of a fixed sum, a rate of interest may be included, and as is common in promissory notes, the amount may be payable by instalments, and the balance made payable on default. The amount may be according to rate of exchange indicated or ascertained by the bill. If specified in foreign money, the amount is calculated at the rate of exchange for payments of drafts at the place where the bill is payable and the date it is due, unless drawn up "exchange as per endorsement."

As in the case of cheques, should the words and the figures differ, the former are taken to indicate the correct sum.

(*i*) *Acceptance.*—The acceptance is an acknowledgment by the drawee of his assent to the order of the drawer, and may be made by the drawee or his agent. A *per pro* acceptance binds the drawee only to the extent of the authority given. Acceptances by infants are invalid.

Should the drawee find that the name and address are incorrectly given, correction may be made.

The acceptance may be—

1. General or clean acceptance, which assents without qualification to the order of the drawer, and consists of the signature of the drawee only; or more frequently, with the addition of the place of payment, generally the London agents of his bankers.

2. Qualified, which may be in regard to (*a*) amount, (*b*) time,

(*c*) renewal, (*d*) payment by instalments, (*e*) place of payment, and there only.

The holder of a bill may refuse to take a qualified acceptance, and the drawer and endorser are not bound to it without assent.

In the United Kingdom, the holder of a bill refused acceptance is entitled to recover the amount of the bill at once from the prior parties; elsewhere, he can only demand better security for payment at maturity.

Negotiation.—Bills are negotiable, that is, transferable to another person with all the rights and privileges to which the holder is legally entitled, and as with cheques, unless negotiation is restricted, are transferred by delivery, or endorsement and delivery.

The holder may sue without notice to the person liable to pay.

The transferee of a negotiable document is presumed to have given consideration: *e.g.* holder in due course of a bill of exchange.

A holder in due course takes free from equities, *i.e.* free from any charge upon the instrument, or any taint in title.

Endorsements may precede or follow acceptances, and may be—

1. Blank—the simple name of the person or firm, without any other instructions or limitation.

2. Restrictive—which prohibits the further negotiation of the bill, or which expresses that it is mere authority to deal with the bill as thereby directed, and not a transfer of the ownership thereof.

3. Special—in which the endorser mentions a certain person or persons, and may also state that it must not be transferred (with or without leave to transfer).

Endorsements must be letter for letter as given:

If payable to several persons (not partners), each one must endorse; unless one has authority to endorse on behalf of the others.

A minor may endorse in order to transfer a good title, though not liable on the bill himself.

An executor or a trustee may endorse, but such endorsement is generally guaranteed by his banker.

A forged or unauthorized endorsement is inoperative, and gives the holder of the bill no right to retain it or deal with it.

"Sans recours," *i.e.* "without recourse," is at times added to a signature, and is a notice by the drawer or any endorser of negativing his liability to the holder.

Signature.—Where a person signs a bill in a trade or assumed name, he is liable thereon as if he had signed it in his private name. The signature of the name of a firm is equivalent to the signature, by the person so signing, of the names of all persons in that firm. A forged or unauthorized signature is fully inoperative, and no right to detain a bill, or give a discharge therefor, or to enforce payment thereafter, can be acquired through, or in that signature, unless the party against whom it is sought to retain or enforce payment of the bill is precluded from setting up the forgery or want of authority. A procuration signature only binds the principal when the agent is within the actual limits of his authority.

Presentation.—A bill must be presented for payment on the due date, or recourse is lost against the drawer and endorsers; in the case of cheques, presentation within a reasonable time is allowed.

A bill should be presented at the proper place, viz. :—

(*a*) At the place specified in the bill.

(*b*) Where no place is mentioned, at the place of the drawee given in the bill.

(*c*) Where this is not given, then at the addressee's place of business, or at his ordinary residence.

Where the drawee or acceptor is dead, and no place of appointment is specified, presentment must be made to a personal representative, if such can be found.

Dishonour.—Should a bill be dishonoured, immediate notice must be given of such fact to the drawer and each endorser, in the absence of which the drawer or endorser is discharged.

On the dishonouring of a bill, a holder may recover from any party liable on the bill, and a drawer who has been compelled to pay the bill may recover from the acceptor, and an endorser who has been compelled to pay the bill may recover from the acceptor or the drawer, or from a prior endorser—

(*a*) The amount of the bill.

(*b*) Interest thereon from the time of presentment for

payment if the bill is payable on demand, and from the maturity of the bill in any other case.

(*c*) The expenses of noting, or, when protest is necessary and the protest has been extended, the expenses of protest.

Noting.—The act of a notary who presents the bill and initials it for identification.

A Foreign Bill Protest.—To draw up in solemn form a declaration of the presentation and the answer received, and to affix the notarial seal. The protest is then universally taken as proof of presentation and dishonour.

Any endorser paying a dishonoured bill acquires the same right against all prior parties, as does also the drawer against the acceptor.

The following terms are met with in regard to bills:—

Retour sans Protet, sans Frais, and *sans Compte de Retour*, which mean that the endorser does not wish expense to be incurred in case of irregularity.

Parties to a Bill.—The parties to a bill of exchange are the principal and sureties. The principal is the person primarily liable for payment, viz. the drawee or acceptor, prior to acceptance the drawer. The sureties are the persons secondarily liable, *i.e.* liable to pay in default of the principal. These are the drawer and the endorser. Although they are co-sureties towards the holder of the bill, they are not so between themselves, each prior endorser being liable to the subsequent endorser, unless "sans recour."

The *Drawer.*—The drawer of a bill, by drawing it—

1. Engages that on due presentment it shall be accepted and paid according to its tenor; that if it be dishonoured he will compensate the holder or any endorser who is compelled to pay it, provided that the requisite proceedings on dishonour be duly taken.

2. Is precluded from denying to a holder in due course the existence of the payee and his then capacity to endorse.

The *Acceptor.*—The acceptor of a bill, by accepting it—

1. Engages that he will pay it according to the tenor of his acceptance.

2. Is precluded from denying to a holder in due course—

(*a*) The existence of the drawer, the genuineness of his signature, and his capacity and authority to draw the bill.

(*b*) In case of a bill payable to drawer's order, the then capacity of the drawer to endorse but not the genuineness or validity of his endorsement.

(*c*) In case of a bill, payable to the order of a third person, the existence of a payee and his then capacity to endorse, but not the genuineness or validity of his endorsement.

The *Endorser.*—The endorser of a bill, by endorsing it—

1. Engages that on due presentment it shall be accepted and paid according to its tenor, and that if it be dishonoured he will compensate the holder or a subsequent endorser who is compelled to pay it, provided that the requisite proceedings on dishonour be duly taken.

2. Is precluded from denying to a holder in due course the genuineness and regularity in all respects of the drawer's signature and all previous endorsements.

3. Is precluded from denying to his immediate or subsequent indorsee that the bill was at the time of his endorsement a valid and subsisting bill, and that he had then a good title thereto.

The *Holder in due course* is one who has taken up a bill—

1. Complete and regular on the face of it.

2. Before it was overdue, and without notice that it had been previously dishonoured.

3. In good faith and for value.

4. Without notice of any defect in the title of the person who negotiated it.

Thus, if the holder has taken a bill before it was due, in good faith, and gave value for it, and had no notice of any defects in title, it will be immaterial that the bill was given originally without consideration.

Accommodation Bills.—An accommodation bill is one which has upon it the name of a person who has signed as drawer, acceptor, or endorser, without receiving value, and simply for the purpose of lending his name and credit to another. A person acting thus is an accommodation party, and he is liable, just as any other party, to a holder for value, whether such holder knew of his position or not. He is really a surety, although the holder has recourse primarily against such accommodation party who has accepted; but the party accommodated impliedly promises to indemnify such acceptor if he is compelled

to pay the bill, *i.e.* the accommodation party is, on the face of it, the principal debtor, having on payment the rights of a surety against the party accommodated; *e.g.* securities held by the creditor belong to him. An accommodation party is not liable until value is given.

Lost Bill.—In the case of a lost bill, the person who was the holder may claim a new bill from the drawer on giving the latter an indemnity against the one lost.

Case of Need.—In the negotiation of foreign bills, with a view to preserve the honour of the parties, and to save expense in the event of the dishonouring of the bill, the name of a person to whom the holder may have recourse in case of need may be inserted by the drawer or any endorser. Of course it is at the option of the holder to resort to the referee in case of need, and prior to doing so the bill must be protested for non-payment.

Acceptance for Honour.—If a bill is refused acceptance by the drawee, or it is protested "for better security" after his acceptance and subsequent failure, it may be protested for honour. After protest it should be presented to any "case of need" named on it, and if the case of need intervenes he should accept thus—

Accepted for honour and account of A. B. & Co. (drawer or endorser), with £ notarial charges, and will be paid, if regularly presented, when due.

N. Y. & Co.

If the name of the party for whose honour the bill is accepted is not stated, the honour of the drawer is presumed.

Payment.—When a bill is paid, the holder may be compelled to deliver it up to the party paying it.

Foreign Bills.—An inland bill is a bill which is, or on the face of it purports to be—

(*a*) Both drawn and payable within the British Isles.

(*b*) Drawn within the British Isles upon some person resident therein.

Any other bill is a foreign bill.

The following are examples of a foreign bill, from which it will be observed that to prevent inconvenience in the non-receipt or delay in reaching its destination, the draft is usually drawn in a set of two or three copies or vias, acceptance or payment of one rendering the others void, and that only requiring to be stamped:—

No. 1.

Exchange for $300. Manchester, April 27, 1906.

Ninety days after sight of this our First of Exchange (Second and Third of the same tenor and date unpaid), pay to the order of Nixon & Co., Three hundred dollars, value N. & Co. 1/4, which place to account as advised.

Hongkong.

Shipping Documents attached to be surrendered on payment.

NIXON & Co.

To MESSRS. WESTHEAD & Co.,
Hongkong.

No. 14127.

£500. September 23, 1906.

Ninety days after sight, pay this First of Exchange (Second and Third unpaid) to our order the sum of Five hundred pounds sterling, payable at the National Bank of India's drawing rate for demand (or telegraphic transfer) drafts on London, with interest at six (6) per cent. per annum, added thereto from date hereof to approximate due date of arrival of the remittance in London, value received against A. & Co 1267/70.

NIXON & Co.

To MESSRS. ANYONE & Co.,
Calcutta.

Endorsed.—Pay the National Bank of India, Limited, or order.

NIXON & Co.

£103 2*s.* 6*d.* Manchester, , 190 .

Ninety days after sight pay this First of Exchange (Second unpaid) to the order of the London and Brazilian Bank, Limited, the sum of One hundred and three pounds, two shillings, and sixpence, payable at the Bank's drawing rate on day of maturity for sight bills on London, value in ourselves, which please place to account as per advice from

NIXON & Co.

To MESSRS. ABLETOPAY & Co.,
Rio de Janeiro.

No 13.

Endorsed.—Pay the London & Brazilian Banking Co. Limited, or order.

NIXON & Co.

BILLS PAYABLE

Dr. Cr.

When and how paid.				When accepted.	No.	By whom drawn, or on whose account accepted.	How accepted.	Where payable.	Tenor.		When due.												Ledger folio.	Sum.		
Date.	Folio.	Cash.	Rebate or dis.						Sight.	Date.	Jan.	Feb.	March.	April.	May.	June.	July.	Aug.	Sept.	Oct.	Nov.	Dec.		£	s.	d.

BILLS RECEIVABLE

Dr. **Cr.**

When received.	No.	On whose account.	By whom drawn.	Place and date.	On whom drawn and where.	Where payable.	Tenor.		When accepted.	When due.												Ledger folio.	Sum.			When and how disposed of.			
							Sight.	Date.		Jan.	Feb.	March.	April.	May.	June.	July.	Aug.	Sept.	Oct.	Nov.	Dec.		£	s.	d.	Date.	Cash.	Dis.	Folio.

They are usually drawn "at sight," or "days after sight," in which latter case the acceptor in accepting adds the date of sighting, from which time the currency of the bill dates.

In addition to the stamp duty of the country of issue, when negotiated in this country, adhesive stamps are affixed in compliance with the Bills of Exchange Act.

We have seen that inland bills need not express consideration, although "for value received" is generally included. Foreign bills, however, should always state consideration as "for value received," "value in account," etc.

In the event of an inland bill being dishonoured either by non-acceptance or non-payment, it is not required that it be noted, except when reference is made "to case of need;" but in the case of foreign bills, it is absolutely necessary that on dishonour the bill be noted and protested, as this evidence of dishonour is required in foreign courts of law.

To summarize the points in regard to foreign bills, they are—

(*a*) In sets.

(*b*) Usually drawn after sight or usance—usance meaning the customary term for which bills are drawn between two countries.

(*c*) Should be noted and protested on dishonour.

(*d*) State consideration.

(*e*) Governed partly by foreign, partly by English law.

Promissory Notes.—A promissory note is an unconditional promise in writing, made by one person to another, signed by the maker, engaging to pay, on demand or on a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person, or to bearer. It resembles a bill of exchange in being negotiable, and it differs from a bill of exchange as to acceptance and as to production when a foreign note is dishonoured, as also in the liabilities of the parties respectively, the maker being primarily liable upon it.

Further, though payable on demand, it needs an *ad valorem* stamp. The amount covered by such notes is very commonly payable by instalments, upon each of which three days' grace is allowed. In the case of several makers, it is usual to make the notes joint and several, and when the note runs "I promise to pay," and is signed by two or more persons, it is deemed to be their joint and several note

EXAMPLES

£500 Birmingham, November 1, 1906.

5s.

On demand I promise to pay to Herbert Sharp, or Order, the sum of Five Hundred Pounds.

ARTHUR READER.

£500 Leicester, November 1, 1906.

5s.

Six months after date we jointly and severally promise to pay to the order of C. A. Moss the sum of Five Hundred Pounds.

B. BLACK.
C. WHITE.

Entry of Bill Transactions in the Accounts.—Very careful should be the business man to note fully the particulars of bills drawn, accepted, or endorsed by him. Every bill should bear a distinctive or consecutive number, and be entered in a Bills Journal or Bills Ledger, of which those on pp. 282, 283 are specimen forms.

Some firms adopt the method of keeping separate columns in the Cash Book for bills; those received entered on the debtor side and credited to the customers; those accepted, or paid away, being entered on the credit side, and posted to the debit of those to whom handed. Another form of entry is to treat them as cash, and enter them along with the cheques and other receipts and payments, but this system cannot be considered as satisfactory. In cases where the bill transactions are few, it is usual to enter the particulars in a Memorandum Bill Book, and then to journalize the bill entries, and when the cash is received or paid, to make the entries in the Cash Book.

Let us take a few typical transactions, and make the Journal entries for the same:—

BILLS RECEIVABLE

(*a*) Receipt of an acceptance—
Bills receivable. Dr.
To Personal Account.

(*b*) Payment of the above acceptance to another firm—
A. firm. Dr.
To bills receivable.

(*c*) Discount of above bill—
Bank. Dr.
Discount. Dr.
To bills receivable.

(*d*) Payment to bank on maturity for collection—
Bank. Dr.
To bills receivable.

(*e*) Bill dishonoured in case (*b*)—
Person from whom received. Dr.
To A. firm. Cr.

(*f*) Bill dishonoured in cases (*c*) and (*d*)—
Person from whom received. Dr.
To cash or bank.

(*g*) Partial renewal of bill—
Bill receivable. Dr. (new acceptance).
Cash. Dr.
To bill receivable (old acceptance).

Bills Payable

(*a*) Acceptance of draft—
Personal Account. Dr.
To bills payable.

(*b*) Payment at due date—
Bills payable. Dr.
To bank.

(*c*) Payment prior to maturity—under rebate—
Bills payable. Dr.
To bank.
„ discount.

(*d*) Receipt of own acceptance from a debtor—
Bills payable. Dr.
To debtor. Cr.

(*e*) Failure to meet acceptance at maturity—
Bills payable. Dr.
To personal account.

Example I

A. drew upon B., on January 1, 1905, a bill for £1000 at three months, which he discounted with his bankers on January 10. Before the bill became due, B. applied to A. to renew half the bill for a further three months, adding interest at 5 per cent. per annum and cost of stamp, to which A. agreed on B. paying him the other £500 in cash. A. therefore retired the bill for £1000, and drew upon B. as agreed. Make the necessary Journal entries for recording the above tranactions in A.'s books.

		£	s.	d.	£	s.	d.
Jan. 1.	Bills receivable. Dr. . .	1000	0	0			
	To B.				1000	0	0
„ 10.	Cash. Dr.	987	10	0			
	Discount	12	10	0			
	To bills receivable . .				1000	0	0
March .	B. Dr.	1006	10	0			
	To sundries—						
	Cash				1000	0	0
	Interest				6	5	0
	Stamp, cash . . .				0	5	0
„ .	Cash. Dr.	500	0	0			
	Bills receivable	506	10	0			
	To B.				1006	10	0

Example II

A. and B. have the following accommodation bill transactions: A. draws on B. for £675 at three months, from January 1, 1906. A. discounts the bill with his banker for £640 on January 1, and pays to B. out of the proceeds £320, which B. pays into his bank. On March 28, 1906, to provide part of the funds to meet his acceptance to A., B. draws on A. for £500 at three months, and discounts the bill with C., receiving therefor £490 in cash, which B. pays into his bank, and through his bank duly provides for his acceptance. Give the entries in B.'s Journal recording these transactions.

1906.		£	s.	d.	£	s.	d.
Jan. 1.	A. Dr.	675	0	0			
	To bills payable				675	0	0
„	Cash. Dr.	320	0	0			
	Discount. Dr. (half of £35) . . .	17	10	0			
	To A.				337	10	0
March 28.	Bills receivable	500	0	0			
	To A.				500	0	0
„	Cash. Dr.	490	0	0			
	Discount. Dr.	10	0	0			
	To bills receivable				500	0	0
	A. Dr.	6	17	9			
	To discount				6	17	9
	i.e. A.'s proportion of accommodation discount—337½/490ths of £10						
April 4.	Bills payable. Dr.	675	0	0			
	To cash				675	0	0

Foreign Exchange

We have shown how large a part the bill plays in the discharge of home trade accounts; now we may consider the part

taken by bills of exchange in the settlement of the indebtedness arising from the immense volume of our foreign and colonial trade, which in 1906 reached the enormous total of a thousand millions sterling—imports and exports. When it is realized that the settlement of this vast trade is mainly effected by means of drafts, for the purchase and negotiation of which we have a market of keenly competing bill brokers, it will be understood that "foreign exchange," *i.e.* the buying and selling of foreign bills, is of much import to the merchant.

Put briefly, exchange is the transfer of debts represented by paper; the dealing in which is complicated by the debts being in various currencies, and by the metals of the different countries concerned differing in kind and quality. The prices of the bills are, within certain limits, constantly varying, the fluctuations being due to various causes, but mainly to the variations of supply and demand of the particular drafts required; for instance, if it is desired to remit to Paris, and there is an abundance of French bills in the market, then the sterling money will buy bills representing more francs than it would if there were a scarcity of drafts payable in Paris.

Similar to dealings in shares on the Stock Exchange, bills may be regarded as being dealt with at a discount or at a premium, but rarely at par. The "mint par of exchange" is "the relation between the amount of pure metal contained in the standard coins of the various countries;" thus the intrinsic value of the gold in £1 sterling, as compared with francs, is equal to 25·225 francs. From this we obtain what are termed "specie points," *i.e.* the points at which it is calculated that bullion may be forwarded to settle the debts, and the limit above the higher or below the lower, the rate of exchange rarely passes for demand or short paper.

In the case of Paris, the cost of conveying the bullion to discharge a debt would be about 12½ centimes for each £1; therefore the lower specie point would be 25·125 francs, and the higher one 25·325 francs; in each case the difference between the mint par of exchange (25·225) and the cost of transmission of bullion. When a Manchester merchant wishful of buying cheques or bills on Paris finds that his sovereign will only purchase less than 25·15 francs, he may decide to forward bullion, or the English holder of bills on Paris may obtain francs up to

the higher specie point (25·25) for his £1; but when this limit is reached, bullion will probably be forwarded from Paris to London; just as in the former case, when the cost of remittance exceeded the lower specie point, there would be a movement of bullion from London to Paris. It must be remembered that what we have said refers to "demand" or short bills or cheques, as should the bills be payable at a future date, then interest will enter into the calculations and affect the "course of exchange," a term meaning the rates of exchange.

To give an example, the price of a bill, other things being equal, oscillates at about its face value, or mint par, the fluctuations being dependent on the supply and demand resulting from the balance of indebtedness between two countries; thus, let us say, we owe to Germany £100,000, while Germany owes us only £80,000, then there will be competition for bills on Germany, and their price will rise; if, however, there are more bills in the country than there are debts to pay, as in the event of our owing to Germany £80,000 and having claims on her for £100,000, then we may expect the price to fall; it will thus be seen that in the latter case a number of bill-holders will be put to expense in obtaining the money for the bills held by them, and, in the other case, traders put to expense in discharging their debts. The value of a bill is also determined by the following factors:—

(*a*) The time the bill has to run.

(*b*) The market rate of interest.

(*c*) The credit of the drawer and of the acceptor or of endorsers.

The price of bills in a particular country is also influenced by the price of bills on other countries; John Bull may pay a debt to Germany by buying a French bill, thus paying the debt owing to Germany by a debt she owes to France. We have so far referred to traders' bills, but in many operations the intervention of the banker is necessary, as, say, in the payment of a German debt by a banker's bill drawn on Chili. These indirect exchange operations are termed arbitrage.

From an inspection of the following exchange rates, the student will notice how the element of time plays an important part in the quotations, bringing into account the consideration of interest for the time the bill has to run, and also the question of money rates at the maturity of the bill.

LONDON COURSE OF EXCHANGE

On	Usance.	Price negotiated on 'Change. January 22nd.		January 24th.	
Paris	Cheques	25·21¼	25·23¾	25·22½	25·25
"	3 months	25·42½	25·47½	25·43¾	25·48¾
Marseilles	"	25·43¾	25·48¾	25·43¾	25·48¾
Amsterdam	cheques	12·2¼	12·2½	12·2¼	12·2½
"	3 months	12·5⅝	12·6⅛	12·5½	12·6
Berlin	"	20·76	20·80	20·76	20·80
Hamburg	"	20·76	20·80	20·76	20·80
Frankfort	"	20·76	20·80	20·76	20·80
Vienna and Trieste . . .	"	24·42	24·46	24·42	24·46
Antwerp	"	25·56¼	25·61¼	25·56¼	25·61¼
St. Petersburg	"	24¼	24⅜	24¼	24⅜
Moscow	"	24¼	24⅜	24¼	24½
Genoa, Naples, etc. . . .	"	25·56¼	25·61¼	25·57½	25.62½
Madrid, Barcelona, etc. . .	"	43⅛	43⅜	43$\frac{3}{16}$	43$\frac{7}{16}$
Lisbon	"	51$\frac{9}{16}$	51$\frac{11}{16}$	51⅝	51⅞
Switzerland	"	25·55	25·60	25·55	25·60

FOREIGN RATES OF EXCHANGE ON LONDON

	Latest dates.	Rates of exchange.	Usance.		Latest dates.	Rates of exchange.	Usance.
Paris . . .	Jan. 25	25·22½	Cheques.	Rio Janeiro .	Jan. 23	15⅛*d.*	90 dys. st.
Brussels . .	" 24	25·33	"	Buenos Ayres	" 23	48⅞*d.*	"
Amsterdam .	" 24	12·11¾	Short	Do pm. on gold	" 23	127 · 27½	"
Berlin. . .	" 24	20·51	"	Montevideo .	Dec. 28	53⅛*d.*	90 dys. st.
" . . .	" 24	20·25	3 months			Bng. Sng.	
Hamburg. .	" 24	20·50	short	Melbourne .	Nov. 20	⅞ dis. par.	60 dys. st.
Frankfort. .	" 24	20·48	"	Sydney . .	" 20	"	"
Vienna . .	" 24	24·10¾	"	Adelaide. .	" 20	"	"
St. Petersburg	" 24	94	3 months	Calcutta . .	Jan. 25	1/4⅛	telegraph
New York .	" 24	4·81⅝	80 days	Bombay . .	" 25	1/4$\frac{5}{32}$	transfer
			at sight	Hong Kong .	" 25	2/2⅝	transfer
Lisbon . .	" 24	52⅜	"	Shanghai. .	" 25	3/0½	"
Madrid . .	" 25	27·25	"				
Italy . . .	" 24	25·23½	"				

EASTERN EXCHANGE

Outward Rates.—Bank Buying Rates

January 28, 1907

		60 days.		30 days.		Demand.	
		s.	*d.*	*s.*	*d.*	*s.*	*d.*
India and Rangoon . . .	per rupee	1	3$\frac{13}{16}$	1	3$\frac{15}{16}$	1	4$\frac{1}{16}$
Hong Kong	per dollar	2	2¼	2	2⅜	2	2$\frac{9}{16}$
Japan	per dollar	1	11⅞	2	0	2	0⅛
Straits	per dollar	2	3¾	2	3⅞	2	3$\frac{15}{16}$
Shanghai	. per tael	3	0	3	0⅛	3	0¼
Tientsin	. per tael	3	1	3	1⅛	3	1¼

Taking the first quotation, it will be seen that, whereas cheques payable in Paris were paid for at 25·21¼ per £1 sterling, the purchasers of three months' bills bought them at the rate of 25·42½ francs for each sovereign.

In reading the list, it must be noted that quotations in decimals usually mean that the £ sterling is the fixed unit of exchange; when the quotation is in pence, it is the equivalent of the standard coins of the countries concerned. Also it should be mentioned that in the case of decimal quotations the lower rate is for first-class bills, the higher for ordinary trade bills; for those quoted in pence the lower is for trade bills, the higher for bankers' bills.

Telegraphic Transfers.—Remittances are also made by telegraphic transfers through the agency of bankers or of "Reuter," by means of which amounts may be cabled from this side to be placed to the credit of the firm concerned—say in Bombay—within a few hours, and at a cost the merest fraction of the sum thus remitted.

In conclusion we would point out that as foreign exchange may be regarded as a barometer which guides the merchant and banker in forming fairly accurate ideas of the international situation and of the course of trade between the respective countries, it is important that those interested in foreign trade should closely study current economic, financial, and political events and their influence upon the question of exchange.

QUESTIONS AND EXERCISES

158. What is the definition of an acceptance given in the Bills of Exchange Act, and what constitutes a sufficient acceptance?

159. Explain and illustrate the difference between a general and a qualified acceptance of a bill of exchange.

160. Henry and Co., of London, owing money to George and Co., of New York, and having a debtor, John Bull, in that city, advise the latter of their drawing upon him in favour of George and Co. Draw the bill.

161. What is the effect of altering a bill of exchange in a material part? Mention some alterations which are deemed to be material.

162. Prepare a form of bill dated November 1, 1905, drawn by B. Brown and Co., Ltd., upon and accepted by Henry Jack, of 81, Longley Road, Penborough, jeweller, for payment of £89 10*s.* at the Northern Bank, Ltd., in London, four months after date.

163. Brown and Co., receiving a large number of bills of exchange from customers, wish to adopt the most convenient method of recording them. What

do you recommend? Make rulings, and show the entries in respect of the above bill.

164. Is it absolutely necessary to note and protest a bill of exchange in case of dishonour? State briefly the legal object of noting a bill of exchange.

165. Jones and Co. draw upon A. and Co. for an account of £500, allowing them $1\frac{1}{4}$ per cent. discount. At maturity the acceptors borrow from the drawers £100, to assist them in meeting the bill, which is, however, finally dishonoured, Ajax and Co. repaying £70 of the loan. State the Ledger Account in the books of Jones and Co., after the transactions are completed.

165*a*. Discuss the question of Foreign Exchange.

165*b*. Explain the following terms:—

Mint Par of Exchange; Specie points; Arbitrage; Course of Exchange.

CHAPTER XX

DOUBLE ACCOUNT SYSTEM

Capital Receipts and Expenditure Accounts—General Balance Sheet—Repairs and Renewal Fund—Companies to which applicable—Accounts of Railway Companies and General Balance Sheet—Single Ship Companies—Tramway Companies.

IN dealing with the subject of this chapter, we have to look at the question of a "profit available for dividend" from another view. As the reader will have seen, up to this point we have, at the conclusion of the financial period, written off the balances of the nominal accounts to Profit and Loss Account, and have provided for any depreciation of fixed assets by writing off to this same account an amount considered sufficient to reduce the various assets of this nature to their breaking-up value when the time for this comes. The various assets at their estimated value and the liabilities are then set out in the Balance Sheet, and if the double entry is correct for the period, the balance of the Profit and Loss Account is the same figure as the difference between the assets and liabilities, and on being carried to the Balance Sheet will make the two sides of that account to agree. On examining this method it will be seen that the effect (though more complete and satisfactory in every way) is the same as in the Single Entry system, where all the assets are placed on one side of the account, and the opening capital (after adjustment for withdrawals, etc.) and the liabilities on the other side, and the difference, where the assets give the higher figure, being the profit for the year—the profit in single entry, therefore, is the excess of assets over liabilities and capital, and the same rule applies in double entry, save that a Profit and Loss Account is prepared in addition from the nominal accounts, which must agree with the figure shown as excess of assets.

In the Double Account system, however, the Balance Sheet is divided into two parts: the first of these, consisting of what is known in Railway Accounts as "Receipts and Expenditure on Capital Account," contains on one side the total amount of cash received on account of the shares, debentures, and premiums on the same from the public, and on the other side particulars of the total expenditure to date in respect of the fixed assets, including land, buildings, permanent way, rolling stock, preliminary expenses, etc., all stated at first cost. The second part is called the General Balance Sheet, and contains the balance only of the first part, and then sets out in the statutory form the floating assets and liabilities only together with the balance of the Net Revenue Account—the profit available for dividend in this case being the credit balance of the Revenue Account.

The main differences are, (1) the form of Balance Sheet and statement of the assets; (2) the treatment of depreciation and renewals; (3) the question of preliminary expenses, premiums on shares, etc.

With regard to the first, the foregoing remarks and the subsequent forms should be sufficient explanation. To deal with the second, it must be remembered that all the fixed assets are stated at the original cost, and the only variation of this is to add the cost of any extension of the system to the capital expenditure. Depreciation, therefore, as understood and worked in the accounts of a company using the simple double entry, does not exist. If, however, an expensive lease is included as a fixed asset, a depreciation fund may be raised by debiting revenue and crediting the fund which will appear as a liability in the General Balance Sheet, as will be seen by a reference to the Gas Works Clauses Act, 1871. Apart from this, no depreciation is provided for, but all renewals and repairs of every description are charged against revenue. This rule is supposed to do away with the necessity of depreciation, but it must be remembered that in earlier years there will be comparatively few repairs, and probably no renewals, and that in later years large renewals will make one period compare very unfavourably with the more fortunate half-years when such renewals are comparatively small. To meet this objection, many companies charge from the beginning of their existence an average sum

against revenue, and credit this amount to a "Repairs and Renewals Fund," and after debiting the account with the total expense actually incurred during the period, carry forward the balance as a liability in the General Balance Sheet.

The third question, the treatment of premiums on shares, capital profits, preliminary expenses, etc., is settled by the form of the accounts, which show that all these items are in the nature of capital, and therefore the former cannot be divided as profit, nor is the last written off out of profits; whilst companies keeping their accounts by the single account system, might distribute the former, subject to their articles of association; and, as a matter of sound finance, will probably write off their preliminary expenses against revenue in their early years of trading, usually in three or five years.

This method of accounting was used in the first instance in the case of certain companies which were incorporated by special Acts of Parliament, such as railway, gas, and water companies. As other companies are governed by "Table A," excepting in so far as this document may be excluded or varied by the company's special articles of association, so Parliamentary companies are governed by the Companies Clauses Consolidation Act of 1845, and the various Acts of a similar nature suitable to their own class of business, subject to any variations made by their own special Act. Railway companies, for instance, are governed by numerous Acts, one of which, viz. the Regulation of Railways Act, 1868, in a schedule sets out the form of accounts in which railway companies were to present their half-yearly statements to their shareholders, and for our present purpose we may take that Act as the one which commenced the modern "Double Account" system.

The forms prescribed can be seen in the published accounts of all railways, and many of them are statistical only, the full accounts consisting of—

1. Statement of Capital authorized and created by the Company.
2. Statement of Stock and Share Capital created, showing the Proportion received.
3. Capital raised by Debenture Stock.
4. Receipts and Expenditure on Capital Account.
5. Details of Capital Expenditure, Half-year ending ——.

6. Return of Working Stock.

7. Estimate of further Expenditure on Capital Account.

8. Capital Powers and other Assets available to meet further Expenditure, as per No. 7.

9. Revenue Account, Half-year ending ——.

10. Net Revenue Account.

11. Proposed Appropriation of Balance available for Dividend.

12. Abstracts, Half-year ending —— (of various expenses, etc.).

13. General Balance Sheet.

14. Mileage Statement, Half-year ending ——.

15. Statement of Train Mileage.

On looking over this list, it may be pointed out that the Balance Sheet is contained in parts 4 and 13, and in certain cases also partially in No. 2 and No. 3, and that the Profit and Loss Account appears in Nos. 9 and 10; beyond that, for book-keeping purposes, we need not go, whilst for examination purposes (so far as questions have been set up to date) we can further ignore 9 and 10.

Form No. 2 is in use mainly by the older railways which, in earlier days, when money earned a higher rate of interest, issued preference stock carrying rates of interest from 5 per cent. downwards, and later found the varying rates troublesome, and therefore obtained powers under a special Act of Parliament to consolidate their stock. Thus supposing a company had issued at various times the following—

£500,000	preference	stock	carrying	5°/ₒ	interest
1,000,000	,,	,,	,,	4°/ₒ	,,
1,000,000	,,	,,	,,	3°/ₒ	,,

and they wish to convert these to a uniform 3 per cent. consolidated stock, it would be accomplished by issuing to the holders of the two earlier stocks a sufficient amount of the new "Consolidateds" to bring them in a similar income to that which they now enjoy, therefore any one holding £100 stock of each would receive in exchange for the 5 per cent. stock £166 13*s*. 4*d*., for the 4 per cent. stock £133 6*s*. 8*d*., and for the 3 per cent. stock £100, so that the new capital would be issued thus—

No. 2. STATEMENT OF STOCK AND SHARE CAPITAL CREATED SHOWING THE PROPORTION RECEIVED

Description.	Amount created.			Amount received.			Nominal addition under South of England Railway Act, 1897.			Total amount issued.			Calls in arrear.			Amount uncalled.			Amount unissued.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Ordinary stock . .	4,000,000	0	0	4,000,000	0	0				4,000,000	0	0									
Consolidated 3% preference stock .	3,166,666	13	4	2,500,000	0	0	666,666	13	4	3,166,666	13	4									
Stock created or sanctioned but not issued	200,000	0	0																200,000	0	0
	£7,366,666	13	4	6,500,000	0	0	666,666	13	4	7,166,666	13	4							200,000	0	0

				£ s. d.		
£500,000	preference stock	5%	would equal	833,333 6 8	new stock	
1,000,000	,,	,, 4%	,,	1,333,333 6 8	,,	
1,000,000	,,	,, 3%	,,	1,000,000 0 0	,,	

and these particulars would be set out in form No. 2 as shown on p. 297.

It will be seen on reference to No. 4 that the figure of £6,500,000 only is dealt with, so that for the nominal amount of our capital, which under the single account system would appear on the Balance Sheet, we must refer to the statement.

To carry our accounts of the South of England Railway Company to the full extent, we must now set out the Capital Account, which, it will be noticed, bears what seems at the first glance the contradictory heading of receipts and expenditure. On second thoughts, however, we see this heading is correct, since we want to know the actual amounts *received* on Capital Account, as is shown on the Single Account Balance Sheet, viz. "capital called up, less calls in arrear," whilst we also wish to know the amount *expended*, and must include as creditors in our General Balance Sheet all items and liabilities incurred on Capital Account as well as the actual payments.

Another point to be borne in mind by the examination candidate if faced with an account of this description is, that though the official form attached to the Act provides on the liabilities side of the Balance Sheet for a balance of capital receipts, it is no uncommon thing for the company to have expended more than they have received on Capital Account, and therefore to show a debit balance in the Balance Sheet, so causing the balance of Capital Account to appear apparently on the wrong side.

Premiums received on the issue of shares are, in companies of this description, a capital receipt, and must appear as such in the accounts. This, of course, is different from the method employed in the Single Account system, and should be duly noted as such. Permanent loans, that is to say debenture stock, are also capital receipts, and therefore come into No. 4, leaving our General Balance Sheet, No. 13, entirely free for the floating assets and liabilities as mentioned before in this chapter.

Dr. **No. 4. RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT** Cr.

	Amount expended to Dec. 31, 1906.	Amount expended during half-year, June 30, 1907.	Total.		Amount received to Dec. 31, 1906.	Amount received during half-year, June 30, 1907.	Total.
	£	£	£		£	£	£
To expenditure—				By receipts—			
On lines open for traffic (No. 5)	5,499,210	1,410	5,500,620	Shares and stocks per account (No. 2) . . .	6,480,000	20,000	6,500,000
				Debenture stock (No. 3) .	1,000,000	100,000	1,100,000
On lines in course of construction (No. 5) . . .	420,319	9,617	429,936	Premiums on ordinary and preference shares . .	205,874	2,000	207,874
Total	5,919,529	11,027	5,930,556				
Working stock	1,000,476		1,000,476				
Subscriptions to other railways	800,000		800,000				
	7,720,005	11,027	7,731,032				
Balance to credit . . .			76,842				
			£7,807,874		£7,685,874	£122,000	£7,807,874

No. 13. General Balance Sheet

Dr.	£		Cr. £
To Capital Account—balance at credit thereof, per No. 4	76,842	By cash at bankers, Current Account, and at interest	191,654
„ Net Revenue Account—balance at credit thereof, per account No. 10 . .	172,014	„ bills receivable	10,849
„ guaranteed dividends and interest payable or accruing and provided for	36,997	„ general stores, stock of materials on hand . .	75,549
„ amount due to Clearing House	58,135	„ traffic accounts due to the company	110,245
„ balance due to other companies	19,796	„ amount due by post-office	3,678
„ sundry outstanding accounts	58,648	„ balance due from other companies	23,817
„ insurance fund	12,000	„ sundry outstanding accounts	18,640
	£434,432		£434,432

When a substantial replacement and addition occurs, the method of railways is to charge the cost of replacement in the old style but at modern rates to the Repairs Fund, whilst any increase in the cost above that figure would be considered as capital. Thus a replacement of a station which had originally cost £20,000, and which to rebuild in the same style would now cost £28,000, by a newer and larger one required by the increased traffic, which has cost the company £100,000 in all, would be debited to revenue to the extent of £28,000, less any amount received for the old material, and the balance only charged as additional capital expenditure.

Subject to the Acts of Parliament and to the principles of sound finance, the apportionment of expenditure to revenue and to capital is entirely a matter for the companies, and no question of interference by outsiders need be considered.

When we come to deal with a water company, for instance, we find that in consideration of being allowed a monopoly in a necessity of life for a particular district, the company, by the Acts relating to this class of business, is precluded from paying more than 10 per cent. as a dividend, which 10 per cent. is treated as a cumulative preference dividend would be, that is to say that the company may pay this dividend for every year on

each share, and if in early years the rate has been less than that, the company can now make up the deficiency. After paying this 10 per cent. dividend, they are allowed to build up a reserve fund, which, however, must not exceed one-tenth of their capital, and all profits after that must go to reduce the charge which they make for water to their consumers. A double duty thus exists in a company of this class with regard to the repairs and renewals, for with a prosperous company one often sees the officials charging everything possible to revenue, so as not to show so large a profit as to make it necessary to reduce the price.

A similar rule as to maximum profits also governs gas companies, unless, indeed, a smaller maximum than 10 per cent. should be given in the special Act, in which case that lower rate prevails.

Having therefore seen the principle and form of the Double Account system as applied to parliamentary companies, we must now give consideration to its extension to other companies, which have adopted this method of keeping fixed assets and revenue quite distinct.

The most important and usual of these is a Single Ship Company, that is a society owning one ship only, and not a fleet of steamers. Many of these companies are now registered under the Companies Acts, 1862–1900, but many still hold to the old rule of dividing the ship into 64 equal shares. In companies of this class it is usual to charge the first cost of the ship to Capital Account, and after that to keep her in good repair and pay any credit balance of Revenue Account to the shareholders from time to time. In this way, of course, no depreciation is dealt with, and since sooner or later our good ship becomes scrap iron, it follows that the so-called dividends include capital returned; the investor should remember this and set aside out of his dividend such portion as may be capital for reinvestment, using the balance only for income purposes. Some of these concerns insure their ship for what they consider its present value, and state the amount at which it is insured in the accounts. In this case the investor can make his own provision for the day when the company is wound up.

The decision of the courts in the important case of *Lee v. Neuchatel Asphalte Co.* also led a certain class of mining

companies to disregard allowing for depreciation except to a very limited extent. The company was formed to work various asphalte "concessions" for a term of years, in which admittedly the asphalte would outlast the concession, and the Court held that the credit balance of Revenue Account might be distributed as dividend without reference to depreciation. In this matter, however, the concessions had been increased, so that when the case was tried they had actually longer to run than when the company was formed.

Another decision bearing on the depreciation question was that of *Verner* v. *The General and Commercial Trust Co.* Here the company was formed for the purpose of buying certain stocks and dividing the income arising therefrom amongst the shareholders; such stocks and shares under these circumstances were held by the Court to be in the nature of fixed assets, and it was therefore held that the credit balance of Revenue Account could be divided, even though the capital value of the stock had fallen below the purchase price, and no reserve had been made to deal with the loss which was bound to arise when realization took place.

It will thus be seen that the idea of keeping fixed assets and floating assets entirely distinct has, by the various decisions of the Courts, been gradually extending and applied to companies other than parliamentary companies.

Of course, in all companies it is unusual to interfere with any fluctuation of value of such fixed assets as land (*Bolton* v. *Natal Land and Colonization Co.*) and goodwill (*Wilmer* v. *McNamara and Co.*). These cases allowed dividends to be paid, although it was alleged that assets of this nature had depreciated and no provision had been made for the same.

The true Double Account system may be applied to tramways, light railways, and certain mining companies with satisfactory results, and to certain other companies with legal protection, but not always with such success or with real financial soundness, unless, as has been pointed out in the foregoing remarks, the shareholder is made to understand that his capital or a portion of it is being returned in the form of dividend.

Example of Accounts of tramway company:—

THE ——— TRAMWAY CO., LTD.

Dr. CAPITAL ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1903 Cr.

	Expenditure, Dec. 31, 1902. £	s.	d.	Expended during the year. £	s.	d.	Expenditure up to Dec. 31, 1903. £	s.	d.		Certified receipts, Dec. 31, 1902. £	s.	d.	Received during the year. £	s.	d.	Total receipts to Dec. 31, 1903. £	s.	d.
Permanent way and overhead electrical equipment	150,500	0	0	20,000	0	0	170,500	0	0	5% debenture shares	50,000	0	0	50,000	0	0	100,000	0	0
Electric power station, plant and car depôt	70,000	0	0	5,000	0	0	75,000	0	0	7½% preference "	100,000	0	0				100,000	0	0
Rolling stock, etc.	20,000	0	0	600			20,600	0	0	Ordinary "	100,000	0	0				100,000	0	0
Office buildings, etc.	1,000	0	0				1,000	0	0										
	£241,500	0	0	25,600	0	0	267,100	0	0		£250,000	0	0	50,000	0	0	300,000	0	0
To balance of capital in hand							32,900	0	0										
							£300,000	0	0								£300,000	0	0

GENERAL BALANCE SHEET, DECEMBER 31, 1903

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
Capital Account—balance to credit	32,900	0	0	Stores, etc., in hand	1,020	0	0
Reserve fund	15,000	0	0	London and N. W. Railway stock	15,000	0	0
Depreciation fund	30,000	0	0	Trade debtors	Nil		
Trade creditors	340	0	0	Cash in bank	104,572	0	0
Interest due to debenture holders	5,000	0	0	" hand	148	0	0
" " preference shareholders	7,500	0	0				
" " ordinary "	10,000	0	0				
Profit and Loss Account	20,000	0	0				
	£120,740	0	0		£120,740	0	0

QUESTIONS AND EXERCISES

166. State the objects of the Double Account system.

167. To what classes of companies is the Double Account system applicable?

168. Give an example of a Capital Receipts and Expenditure Account.

169. How may provision for depreciation be made?

170. Distinguish between the Double Account and the Single Account methods of preparing a company's Balance Sheet, and explain in what respects the two methods differ in their effect on the amount of divisible profit.

171. Distinguish between the treatment of premiums received on the issue of shares by a Double Account undertaking, and a Single Account company.

172. From the following particulars write out a Capital Account and Balance Sheet of the Sun Electric Light Company, Ltd., as on December 31, 1900:—

Amounts on Dec. 31, 1899.				Amounts on Dec. 31, 1900.					
£	s.	d.		£	s.	d.	£	s.	d.
42,628	17	2	Mains including cost of laying	90,211	10	4			
1,163	18	8	Transformers, motors, etc. .	9,537	3	10			
521	10	6	Meters and fees for certifying	2,171	11	6			
			Electrical instruments . . .	186	8	8			
963	3	0	Cost of provisional order . .	963	3	0			
40,000	0	0	Preference shares, 40,000 £1 shares 6 per cent.				40,000	0	0
50,000	0	0	Ordinary shares, 50,000 £1 shares				50,000	0	0
			Debenture stock, 4½ per cent.				20,000	0	0
			Sundry creditors				7,943	1	7
			Reserve for depreciation and repairs				2,000	0	0
			Sundry debtors	10,039	14	2			
			Stores on hand	5,005	12	2			
			Cash at bank	5,500	8	0			
			Cash in hand	27	0	6			
			Dividend on preference shares for half-year to June 30, 1900, less tax	1,140	0	0			
			Revenue Account, including £530 10s. balance from Dec. 31, 1899				4,839	10	7
				£124,782	12	2	£124,782	12	2

Masonic. Harri

B/F. . . . £ 5 s. 19 £ 2 s. 11 d. 0

C/F.

	Name	No.	Brought forward.			Apartments and attendance.			Fires and light.			Break			Billiards.		
			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
	Harris	Masonic.	5	19	4		—			—			—			—	
	Grieve	42		5	6		3	6		—			1			—	
	Bolton	43		—			—			—			—			—	
	Chances . . .	—		—			—			—			—			—	
	Smoke-room . .	—		—			—			—			—			—	
	Vaults	—		—			—			—			—			—	
			6	4	10		3	6		—			1			—	

CHAPTER XXI

TABULAR LEDGERS AND ACCOUNTS

Hotel Accounts—Tabular Ledger of a Gas Company—Solicitor's Cash Journal—Perpetual Ledgers—Card and Slip Systems.

We now have to consider the method of bookkeeping comprised under the above heading, and it will be convenient for the moment to compare this class of ledger with that of the ordinary commercial business, which, up to now, we have been mainly considering. In the latter the Ledger is the book in which, for purposes of convenience, we have collected the items under convenient headings, personal and nominal, which have already appeared in the books of first entry. Tabular Ledgers are, however, themselves, as a rule, books of first entry, and the contra to the Nominal Ledger Account is obtained by adding the money columns in the Tabular Ledger, and by posting these totals direct to the other Ledger Accounts.

They are mainly used in dealing with two distinct classes of transactions. First, in connection with such businesses as hotels, with a large number of casual customers who may require their accounts at any moment, and where there are numerous nominal accounts involved for the credit items. Secondly, where there is a large number of customers with only one item in their account for each period under review; for example, a gas company, a Subscription Ledger for charitable societies, clubs, etc.

The simplest demonstration of the working of this system is to give the form used in an hotel for the Customers Ledger, and here each page represents one day only; and it must also be noticed that in some forms the names of the customers are given at the top of the page, and the headings of such nominal accounts as may be required appear down the page,

and in this case the credit postings are made from the cross additions.

In this case these entries will be entered up direct from the counterfoils handed in by the waiters, and this book itself forms the Sales Ledger, and the balances brought forward at the end of each day are in fact the total of the debtors.

The additions of the other debit columns will be made and the figures for the rest of the month will be entered on the succeeding line, and the final total carried to the next day. At the end of the month the totals of these columns, which, as will be seen, have in this book been debited to the visitors, are posted to the credit of the various Nominal Accounts in the Nominal Ledger, thus completing the double entry. The cash is, of course, debited in the Cash Book, and is credited here, whilst the total of the overcharge and allowance column is debited in the Nominal Ledger.

Though not connected with Tabular Ledgers, it is, perhaps, the simplest to continue the description of hotel accounts. The purchase side of the accounts will be entered as usual by means of a Purchase Analysis Book and a Purchase Ledger; but, instead of invoices, Pass Books will be issued by most of the provision dealers, the monthly totals of each will be passed through periodically, and also columns will be added in addition to the money for quantity, quality, or vintage, and price for the wines, spirits, cigars, etc.

The waiters will have triplicate books for the meals and drinks supplied, one form being handed to the office, one to the kitchen or the storekeeper as the case may be, whilst the third form remains in his book for reference; each of these three are, of course, numbered with the same number. It is hardly necessary to add that Store Accounts are kept of all the wines, etc., of which stock is taken periodically and compared with the balances appearing in the Stock Ledger.

With regard to the stock in the bar, and also usually with the cigars, special requisition forms are filled up as and when required, and these amounts are charged out to the particular bar periodically at selling price, and the bar is credited with all cash payments made by it daily or otherwise to the office; the balance between the two sides of the account representing, of course, the stock in hand at the bar in question,

PURCHASE BOOK

Invoice number.	Date.	Name.	Ledger folio.	Total.	Wines.	Spirits.	Bottled ales and stouts.	Draught ales and stouts.	Mineral waters.	Tobacco.	Oxo.	Bar expenses, free lunch, etc.	Rent, rates, taxes, and insurance.	Lighting and heating.	License and telephone.	Sundries.	Items to be capitalized.

Dr. CASH BOOK Cr.

Date.	Particulars.	Ledger folio.	Front bar takings.	Back bar takings.	Billiards.	Daily takings.	Weekly takings.	Sundry debtors	Cash.	Bank.	Date.	Particulars.	Ledger folio.	Discount.	Cash.	Bank.	Summary of unposted items.			
																	Drawings.	Wages.	Cash sundries.	Cash repairs.

which must be frequently taken and compared with the ledger.

It is also necessary to keep full and complete Stock Accounts of all wines, spirits, cigars, etc., which will record the quantities received as per the Invoice Book on the one hand, and the amounts issued as per the various requisition slips given by the waiters or the request notes from the bars; and the stock should be frequently taken and compared with the books, and any items which do not balance exactly duly reported to the management.

The examples of columnar Purchase and Cash Books given on p. 307 serve to analyze the transactions of an hotel, not letting rooms to visitors.

These special points practically exhaust the peculiarities of hotel accounts, and therefore we will return to the tabular question and give an example of a ruling where the customers are regular and have usually only one transaction of each kind in the period.

The example which we take here is that of a gas company, and a very similar ruling will make it suitable for the rates and taxes payable to the various local authorities, a water company, or any similar institution. In this case the ruling will be repeated to show in one opening four quarters at least, or in the case of rates, etc., payable yearly or half-yearly, to cover two or three years, according to circumstances.

From the form on p. 309 it will be seen that each house is given a consecutive or reference number, which number will appear on the debit note which is produced at the time of payment and jotted down in the Cash Book. The various debits for gas consumed, meter rents, hire of stoves, etc., appear here, which is, of course, the Personal Ledger. Whilst the totals of these various columns are added up, the totals are posted to the credit of the various Nominal Accounts.

The credit side calls for no special comment, though as a matter of fact, the discount column may be discarded if preferred, and the total posted from the Cash Book. The other allowances should be specified, and may be analyzed and posted direct to the debit of the various Nominal Accounts.

With such companies, a special Tabular Ledger will probably also be used to record the deposit required by gas

FORM OF TABULAR LEDGER FOR A GAS COMPANY

QUARTER ENDING MARCH 31

Arrears Dec. 31.			Cash book folio.	Arrears collected.			Reference No.	No. in street and name.	Meter reading.		Gas consumed.				Meter rental.			Stove rental.			Other debits.			Total debits.			Date.	Cash book folio.	Cash.			Discount.			Other allowances.			Balance forward.		
									Opening.	Closing.	Cubic feet.	Amount.																												
£	s.	d.		£	s.	d.						£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.

companies from their customers, which, taking into account their power of cutting off the gas, and in some cases a right of distraint, prevents their bad debts reaching a formidable figure.

Life assurance companies also adopt what is in effect a Tabular Ledger to record the collection of the premiums; but as there is a special chapter dealing with accounts of this nature, the student is referred to such for another form relating to this class of ledger.

When we come to deal with other tabular books, the custom is now so well known and so universal that it is hardly necessary to do more than mention many of the books on this system. The book most frequently met with is the Purchase Journal, which usually contains a reference number to the invoice, which is duly numbered and filed away, and then columns for the name of the supplier, posting folio, total amount, and then the numerous columns for the analysis of the purchases or expenses.

A similar book is also used for the Sales Journal where departments are kept separately, and a reference to the chapter on Departmental Accounts will show a form of that description.

Another book which might come under the heading of Tabular Bookkeeping is the Petty Cash Book when it is kept on the Imprest system, and the posting of these expenses made direct from the Petty Cash Book to the nominal accounts; the corresponding credit appearing in the Cash Book for the cheque drawn weekly or monthly, as the case may be, to reimburse the petty cashier.

The Petty Cash Book, in that case, would appear in a form adapted to the business, of which a specimen is set out on p. 311.

In this case the items amounting to 15*s.* 4*d.* have been already posted, and the other items for travelling expenses, etc., are posted to the debit of the various nominal accounts, and the cash paid at the week end—£6 18*s.* 8*d.*—is the credit for the whole.

The Cash Book has also undergone tabulation in recent years, and an example of this may be found in the Insurance chapter. Many companies and societies of a somewhat similar nature, such as industrial and provident societies, and building societies, the bulk of whose transactions occur in cash, also use a tabular cash book to save detail in posting.

PETTY CASH BOOK

Amount received.			Date.		Particulars.	Amount expended.			Travelling expenses.			Postages and telegrams.			Stationery.			General expenses.			Folio.	Ledger account.		
£	s.	d.				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.
10	0	0	Jan.	1	To cash—																			
			,,	2	By John Smith . .		7	6													P.L.		7	6
			,,	,,	,, railway to Bolton .		1	6		1	6										16			
					Etc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		—	—	—
					Etc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		—	—	—
					,, balance	3	1	4																
10	0	0			Balance £3 1s. 4d.	10	0	0	1	1	7	3	6	0	1	2	3		13	6			15	4
3	1	4			To balance																			
6	18	8			,, cash																			

CASH JOURNAL

				Debits												Credits												
Date.	Narrative of transaction.	On whose account.	Ledger folio.	Ledger accounts.			Office.			Received.						Paid.						Office.			Ledger accounts			Ledger folio.
				Amounts debited to clients.			Expenses, etc.			By bank.			In cash.			In cash.			By bank.			Costs, etc.			Amounts credited to clients.			
				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	

Solicitors' Accounts.—Another interesting form of columnar journal is that in very common use in solicitors' offices, viz. Kain's Cash Journal.

The special features are that, additional to the Cash and Bank Accounts, it is the posting medium for all debits and credits to clients, agents and partners, and that under the heading of "office" all profit and loss items find entry.

At the end of the year an estimate of outstanding costs is made, credited to the office and included in the debtor balances; and an estimated sum for outstanding charges (agents' fees, etc.) charged against the office and included among the creditors. The difference between the Dr. and Cr. columns of the office is transferred to the Partners' Capital Accounts, as being the profit or loss of the year.

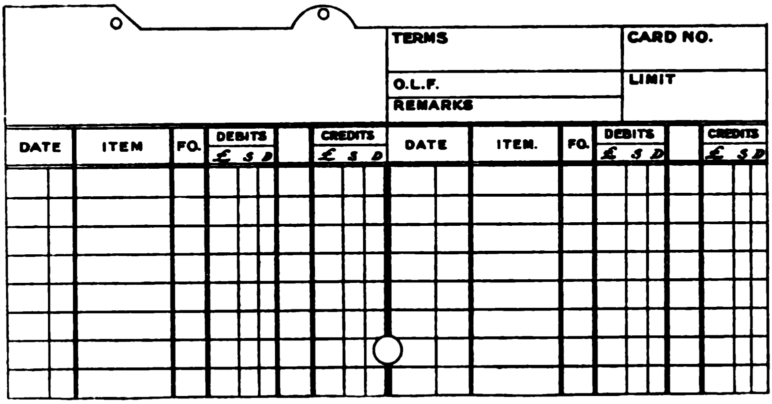
Card and Slip Ledger Accounts

At this point it would be well to give a brief description of and mention the pros and cons of the perpetual ledger system of accounts and bookkeeping. We would first acknowledge our indebtedness to the Trading and Manufacturing Company, Limited, for the use of the blocks from which our illustrations are taken.

There is no doubt that the slip and card system as a labour-saving device has come very much to the front during the past few years, and been adopted with great benefit by many leading commercial concerns, not only for correspondence and other business records, but for costing, Day Book entries, etc. The latest development is to apply the method to that book generally regarded as of the first importance—the Ledger.

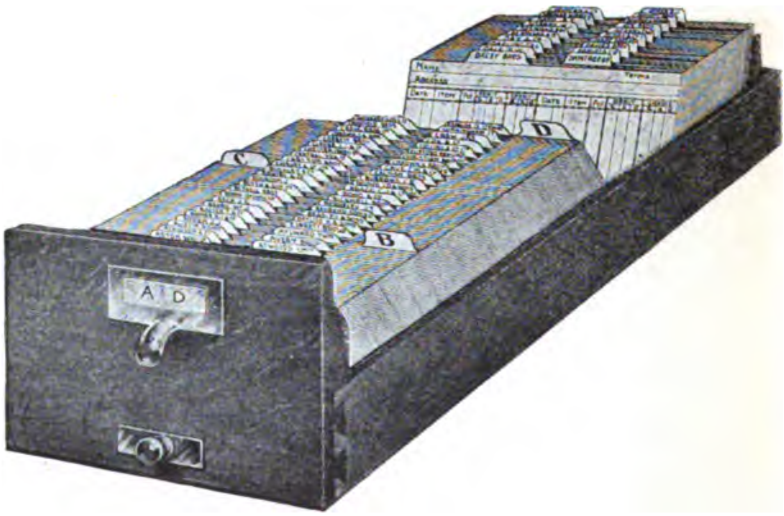
The perpetual card system is one in which the ledger accounts are written on separate cards kept in a special tray or drawer and arranged vertically in alphabetical, numerical, or geographical order. The cards, when not in use, are held in position by a rod passing through a hole in the bottom of the cards. Each card represents an account, and is kept for that account until filled up, when it is removed to a transfer tray and replaced by a new card.

The following is a specimen of a ledger card, reduced size.

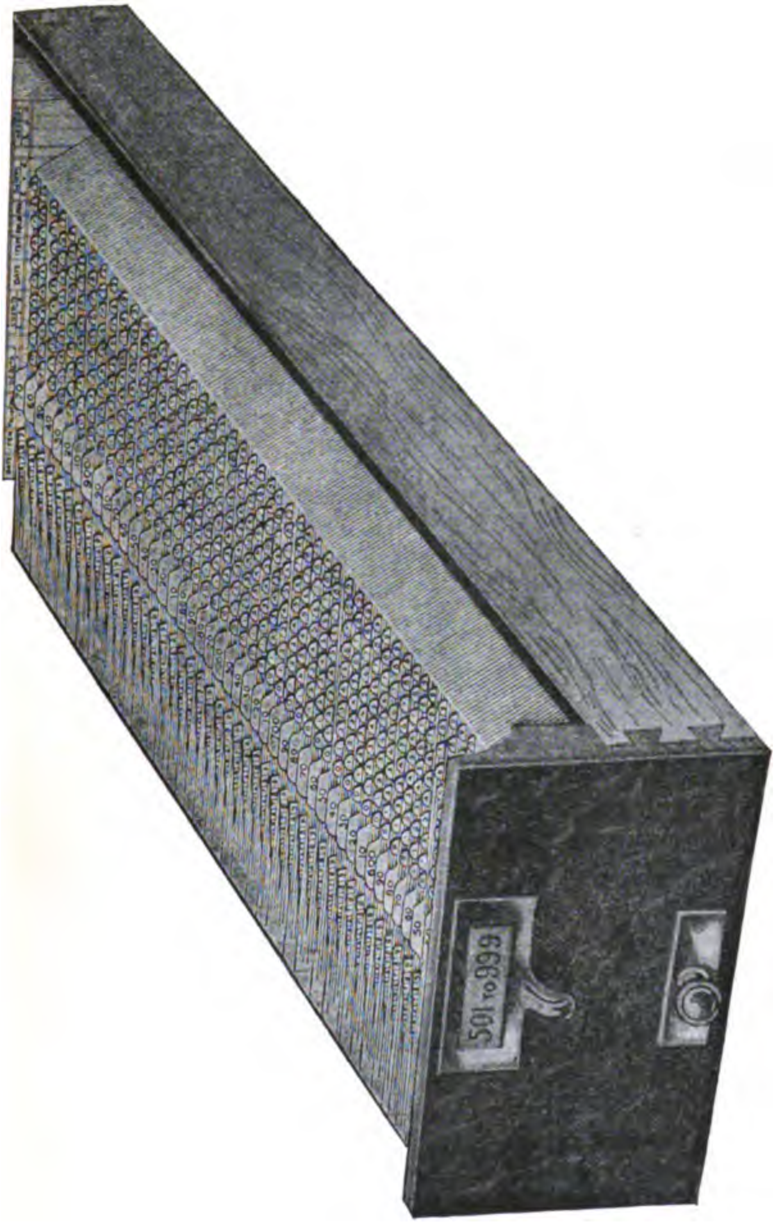


LEDGER CARD.

We also give illustrations of a drawer containing an alphabetically arranged set of cards and one with numerical arrangement ; the latter also requiring index cards as shown.



DRAWER CONTAINING ALPHABETICALLY ARRANGED CARDS.



THE LEDGER CARD FILED IN NUMERICAL ORDER.

INDEX CARD.

It will be obvious that such a system allows of—

(*a*) The classification and grouping of the accounts.

(*b*) The separation and withdrawal of closed accounts.

(*c*) The distribution of the cards, when numerous, for the preparation of statements, or of extracting the balances for the trial balance.

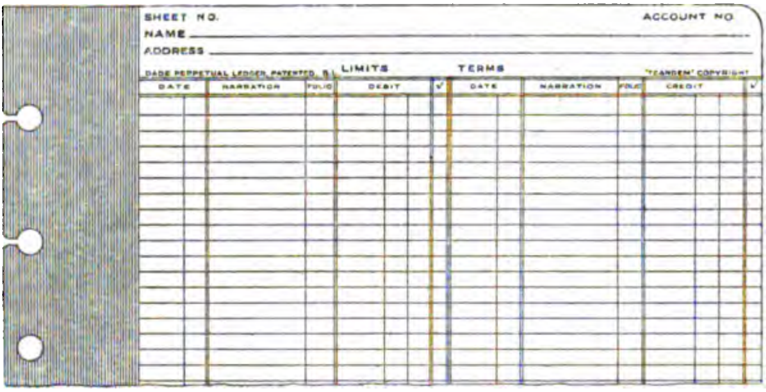
(*d*) The saving of time and labour spent in opening new ledgers.

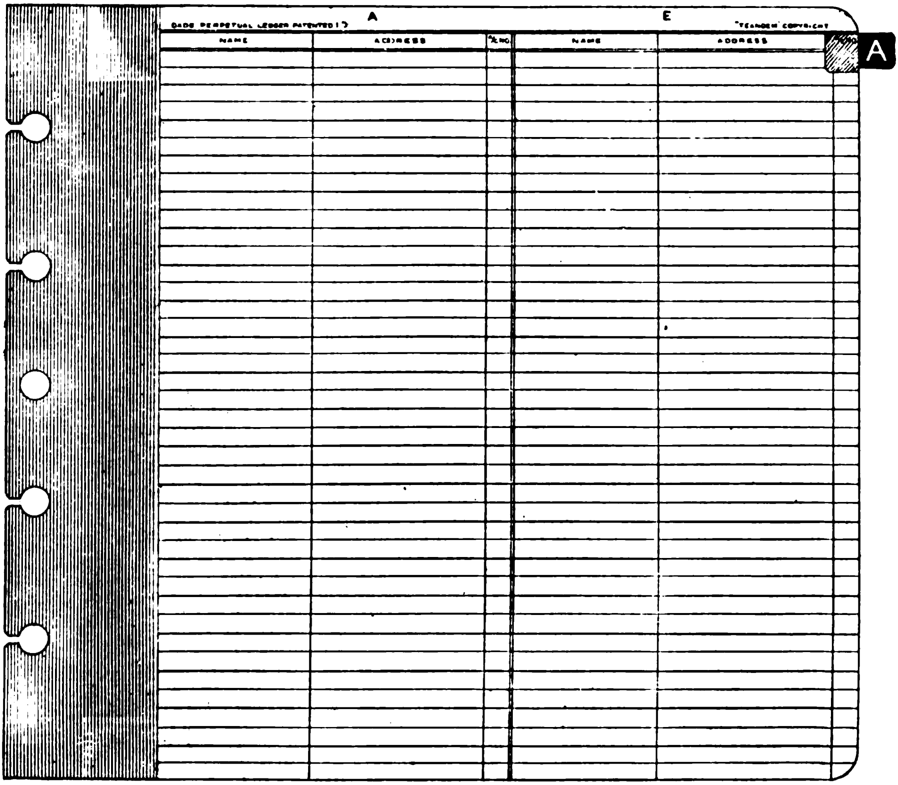
It must, however, be equally apparent that the card system would be strongly objected to by many firms on account of the danger of the cards being withdrawn and not replaced, and the opportunities afforded to business employees of tampering with the accounts by the substitution of false cards. This objection, however, may be considered as practically non-existent by the adoption of the Perpetual Ledger with the slip system. Here the ledger accounts are secured between strong and handsome covers by steel posts, one of which acts as a lock; simply pressing down the covers automatically locking the binders and preventing the removal of any sheet.

Another striking feature is that the index, instead of being loose or contained at the beginning or end, as is the case with the ordinary bound ledger, runs through the Perpetual Ledger, dividing the accounts into alphabetical sections. Further, as

accounts are filled they are removed to a Transfer Ledger, a companion to the one containing the operative accounts.

The following are examples of a ledger account, showing the perforation for the locking, and of a special name and address index sheet.





The advantages claimed for the Slip Perpetual Ledger are—

1. *The opening of new ledgers dispensed with.*—The account is given a certain position and number, which never changes, and so enables the bookkeeper to post, after a time, without reference to the index.

2. *Only "live" accounts in actual use.*—When the sheet is full, after certifying, the balance may be taken to the "Transfer Ledger," its position and number being exactly the same as in the Current Ledger. Convenience to the clerks for preparation of statements and extraction of trial balance.

3. *Facility of audit.*—Much of the matter required for the audit will be found in the Transfer Ledger, and therefore Current Ledger will be available to the office staff whilst the Transfer Ledger is being audited.

4. *Indexing distributed through the book, thus sectionising the ledger.*—Instead of loose index, or at front or back. To save high numbers, each section commences at number 1.

The book once locked by closing down the covers, it is impossible to remove or insert anything without the key.

To prevent the substitution of one sheet for another the following safeguards may be adopted:—

(*a*) The paper may have a special watermark.

(*b*) The firm's name may be printed at the head of each sheet.

(*c*) Each sheet may be machine numbered, and a register kept of their exact position; or the stock of sheets may be placed under the control of some responsible person, and the issue and balance of sheets subjected to audit.

The only objection to the adoption of the Slip Ledger that need be mentioned is that there is uncertainty as to whether such accounts would be accepted as evidence in a court of law; but in most business houses other records than those in the ledger could, if required, be produced as evidence of any claim.

QUESTIONS AND EXERCISES

173. To what special concerns are tabular accounts applicable?

174. State the advantages of the tabular method of account-keeping in any business with which you are acquainted.

175. Explain the use of a tabular ledger in the case of a gas company.

176. Explain Kain's form of Cash Journal for solicitors' accounts.

177. What special forms of books would you recommend for use in keeping the accounts of a hotel. Give specimen rulings of the two most important of such books.

178. Having been appointed bookkeeper by the proprietors of the White Hart Hotel, Blanktown, you are asked to entirely remodel the system of bookkeeping, and are instructed to submit monthly Profit and Loss Accounts. The hotel contains fifty bedrooms, and does the usual "visitors" trade for a daily average of forty guests. There are also two bars ("parlour" and "the vaults"), a fair "posting" trade, a bus service to and from the station, and an "outdoor" business, partly cash and partly credit, in wines, spirits, and cigars with the surrounding gentry. Submit sketches of the books you would suggest, accompanied in each case by a brief explanation.

178*a*. Describe the card and slip systems of dealing with Ledger Accounts.

178*b*. Discuss the advantages claimed for, and the objections raised against the perpetual ledger system.

CHAPTER XXII

BANKRUPTCY

Arrangement with Creditors—Statement of Affairs and Schedules—Deficiency Account—Preferential Payments—Trustees' Accounts and Statements in Bankruptcy.

ALTHOUGH we have so far confined our attention to solvent concerns, able to pay 20*s*. in the pound in discharge of liabilities, yet it is a common experience to be called upon to deal with cases of insolvency.

The trader finds that he cannot meet his engagements, and is worried by certain pressing creditors and threatened with legal proceedings. To deal fairly by all his creditors, and with the hope of making favourable arrangements with them to carry on his business, he calls them together, places before them the statement of his affairs, and either he or his friends make an offer of a composition of so much in the pound secured by bills of guarantee, or a deed of assignment.

This attempt at arrangement may be fruitless, and on the debtor's own petition, or at the instance of his creditors, the affairs may be wound up by bankruptcy proceedings.

On the next page is a statement of affairs submitted to a meeting of creditors, to whom an offer of 12*s*. in the pound is made, payable in equal payments in three, six, nine, and twelve months, the payment being guaranteed by the debtor's friends.

Should the attempt to arrange with the creditors fail, they or the debtor may apply for a receiving order to wind up the affairs in bankruptcy, in which event the following forms and schedules would have to be prepared and filed in the Bankruptcy Court.

As candidates in the professional examinations are frequently asked to give the front sheet of the statement of affairs, we place before the student this somewhat lengthy form.

STATEMENT OF AFFAIRS

Liabilities.	£	s.	d.	£	s.	d.
Trade creditors				2999	5	0
Cash creditors				758	6	4
Secured creditors—						
Bankers' claims (overdraft)	241	5	6			
Amount of bills receivable on circle, £1127 10*s.* 11*d.*						
Estimated ranking thereon	50	0	0			
	291	5	6			
Amount of bills held in security	371	13	5			
Apparent reversion, per contra	80	7	11			
				£3757	11	4

Assets.	£	s.	d.	£	s.	d.
Stock-in-trade, per inventory and valuation				811	13	3
Warehouse furniture and fittings, per inventory and valuation				33	6	0
Book debts—						
Good	1210	18	1			
Less 3¾% for discount and contingencies	45	8	3			
				1165	9	10
Bad	176	0	9			
(Of no value)						
Reversion from secured creditors, per contra				80	7	11
Bills receivable on hand				63	15	5
Cash on hand				37	1	9
				2191	14	2
Less preferential claims—						
Current half-year's rent of warehouse	25	0	0			
Taxes	10	0	0			
Wages	26	14	4			
				61	14	4
				2129	19	10
Deficiency				1627	11	6
				£3757	11	4

Showing 11*s.* 4*d.* in the £, subject to expenses and realization.

The Bankruptcy Acts, 1883 & 1890.

STATEMENT OF AFFAIRS.

In the County Court of   **holden at**

IN BANKRUPTCY.   **No.**   **of 19**

Re

TO THE DEBTOR.—You are required to fill up, carefully and accurately, this Sheet, and the several Sheets A, B, C, D, E, F, G, H, I, J, and K, showing the state of your affairs on the day on which the Receiving Order was made against you, viz.: the day of 19 .

Such Sheets when filled up will constitute your Statement of Affairs, and must be verified by Oath or Declaration.

Gross liabilities.			LIABILITIES. (As stated and estimated by Debtor.)				Expected to rank.			ASSETS. (As stated and estimated by debtor.)	Estimated to produce.		
£	s.	d.		£	s.	d.	£	s.	d.		£	s.	d.
			Unsecured Creditors, as per list (A)							Property, as per list (H), viz.:—			
			Creditors fully secured, as per list (B)							(a) Cash at Bankers			
			Estimated value of securities							(b) Cash in hand			
			Surplus							(c) Cash deposited with solicitor for costs of petition			
			Less amount thereof carried to Sheet C							(d) Stock in trade (cost £)			
			Balance thereof to contra							(e) Machinery			
				£	s.	d.				(f) Trade fixtures, fittings, utensils, etc.			
			Creditors partly secured as per list (C)							(g) Farming stock			
			Less estimated value of securities							(h) Growing crops and tenant right			
			Liabilities on bills discounted other than debtor's own acceptance for value, as per list (D), viz.:—							(i) Furniture			
										(j) Life Policies			
										(k) Other property, viz.:—			

On accommodation bills, as drawer, acceptor, or indorser	£	,,	,,
On other bills, as drawer or indorser	£	,,	,,
	£	,,	,,
Of which it is expected will rank against the estate for dividend			
Contingent or other liabilities, as per list (E)	£	,,	,,
Of which it is expected will rank against the estate for dividend			
	£	s.	d.
Creditors for rent, etc., recoverable by distress as per list (F)			
Creditors for rates, taxes, wages, etc., payable in full, as per list (G) . .			
Sheriff's charges payable under sec. 11 of the Bankruptcy Act, 1890, estimated at			
Deducted contra			
	£		

Total as per list (H)			
Book debts, as per list (I), viz. :—			
Good			
	£	s.	d.
Doubtful			
Bad			
	£		
Estimated to produce			
Bills of Exchange or other similar securities on hand as per list (J) .	£	,,	,,
Estimated to produce			
Surplus from securities in the hands of creditors fully secured (per contra)	£		
Deduct creditors for distrainable rent, and for preferential rates, taxes, wages, Sheriff's charges, etc. (per contra).	£		
Deficiency explained in statement (K) . . .			
	£		

I, of in the County of make oath and say, that the above Statement and the several lists hereunto annexed marked A, B, C, D, E, F, G, H, I, J, and K, are to the best of my knowledge and belief a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at

in the County of ______________

this ________ *day of* ________ 19

before me

Signature

The sheets referred to by the letters give, in addition to names, addresses, and occupations, the following particulars:—

A. Unsecured Creditors.

Numbered consecutively and in alphabetical order; those whose debts are for £10 and upwards placed first. The amount of the claim, when contracted, and the consideration, are to be stated, and also the particulars of bills of exchange held by the creditor to be given.

B. Fully Secured Creditors.

Particulars of security, estimated value, and surplus, to be stated.

C. Partly Secured Creditors.

Particulars as above, with statement of balance of debt unsecured.

D. Liability for Bills Discounted, etc.

Particulars of bill, and name, address, and occupation of acceptors, and of holder if known, and whether liable as drawer or endorser.

E. Contingent Liabilities.

Usual particulars as with creditors, also stating nature of liability.

F. Creditors for Rent, etc.

Period for which claim is made, amount recoverable by distress, and balance ranking for dividend.

G. Preferential Creditors.

H. Property.

Full particulars, with estimated amounts it may produce.

I. Debtors.

No., name, address, occupation, amount, L.F., whether good, doubtful, bad, estimated to produce, particulars of securities held.

Accounts to be shown as a deduction and not included in Schedule A.

J. Bills of Exchange, etc.

Particulars of bills, with estimated amounts likely to be realized, and of securities held.

K. The Deficiency Account.

By which the debtor sets forth the causes of his insolvency, and accounts for the loss of capital, any profit made, and the deficiency of assets shown by the statement of affairs usually

K

DEFICIENCY ACCOUNT

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
Excess of assets over liabilities on the[1] day of 19 (if any)							Excess of liabilities over assets on the[1] day of 19 (if any)						
Net profit (if any) arising from carrying on business from the[1] day of 19 , to date of Receiving Order, after deducting usual trade expenses							Net loss (if any) arising from carrying on business from the[1] day of 19 , to date of Receiving Order, after deducting from profits the usual trade expenses						
Income or profit from other sources (if any) since the[1] day of 19							Bad debts (if any) as per Sched. "I"[2]						
Deficiency as per statement of affairs							Expenses incurred since the[1] day of 19 , other than usual trade expenses, viz. household expenses of self and[3]						
							[4] Other losses and expenses (if any)						
							Surplus as per statement of affairs (if any) . . .						
Total amount to be accounted for[5] . £							Total amount accounted for[5] . . . . £						

NOTES—[1] This date should be 12 months before date of Receiving Order or such other time as Official Receiver may have fixed.
[2] This Schedule must show when debts were contracted.
[3] Add "wife and children" (if any), stating number of latter.
[4] Here add particulars of other losses or expenses (if any) including depreciation in the value of stock and effects or other property as estimated for realization, and liabilities (if any), for which no consideration received.
[5] These figures should agree.

*Signature*________________

*Dated*________________ 190

contains very interesting material for the public examination of the bankrupt. Heavy household expenses, speculative transactions, which may be Stock Exchange or turf gambling, law suits, embezzlement by employees, heavy bad debts, and trade losses are amongst many of the reasons given.

Reference to the statement will show that creditors are divided into various classes. The amount owing to unsecured creditors, and expected to rank against the estate, is carried out into the effective column; fully secured creditors being set short, and after allowing for the estimated value of securities, the surplus carried to the credit side of the statement, the partly secured creditors will rank with the unsecured creditors for the balance of their debts, after taking into account the value of the securities held by them.

Bills payable are included among the creditors.

Preferential creditors claim upon the estate for full payment, as shown by the deduction in full from the assets on the contra side of the sheet.

Subject to the retention of funds to cover the expenses of administration of the estate, the following are preferential payments in bankruptcy:—

1. Rates due at the date of the receiving order; having become due and payable within twelve months next before that time; and taxes assessed up to April 5 next, before the date of the receiving order, and not exceeding in the whole one year's assessment.

2. Wages or salary of clerks or similar servants, within the four months prior to the date of the receiving order, but not exceeding £50.

3. Wages of workmen or labourers, for time or piece work, within two months before the winding up, but not exceeding £25.

Following the above, the landlord, after the commencement of the bankruptcy, may claim for six months' rent due prior to the date of the bankruptcy.

The contra side needs little explanation, except that there is a separation of the book debts, and the balances that various properties are expected to realize are extended. Of course the balance from secured creditors is included. There is also a deduction for the full amount to which preferential creditors are

entitled. The statement is completed by stating the deficiency as entered to the debit of the Deficiency Account.

Example I

On December 31, 1903, Lawson & Co., finding themselves in difficulties, call upon us to prepare a statement of affairs from the following particulars:—

	£	s.	d.
Unsecured creditors	2600	0	0
Cash and bills in hand, face value £85, estimated to produce	30	0	0
Book debts. Good	500	0	0
Doubtful £1000; bad £50, estimated to realize	750	0	0
Creditors partly secured £1200, the value of their security being £800.			
Creditors fully secured, £1900, the value of their security being £2400.			
Stock on hand, £850. Estimated to produce	750	0	0
Preferential creditors: Landlord for rent, £270 (annual rental, £240); manager's salary, £150, for nine months			
Estimated value of lease of business premises	180	0	0
Contingent liability in respect to a contract not completed, £300			

Prepare statement under the form required by Bankruptcy Acts 1883 and 1890.

Re MESSRS. LAWSON AND CO.

STATEMENT OF AFFAIRS, DECEMBER 31, 1903

Gross liabilities.			Liabilities as estimated by debtor.	Expected to rank.			Assets as estimated by debtor.	Expected to produce.		
£	s.	d.		£	s.	d.		£	s.	d.
2600	0	0	Unsecured creditors as per list "A" . . .	2600	0	0	Cash and bills in hand as per list "C" £85	30	0	0
1200	0	0	Creditors partly secured . . . £1200 Security held by same . . . . 800 ——	400	0	0	Book debts as per list "D," viz.— £ Good . . . 500 Doubtful . . 1000 Bad . . . 50			
1900	0	0	Creditors fully secured . . . £1900				—— 1550	1250	0	0
			Security held by same 2400				Stock on hand . 850	750	0	0
			Surplus to contra . 500				Estimated worth of lease of business premises .	180	0	0
270	0	0	Preferential creditors as per list "B" £ Landlord's rent 270				Surplus from fully secured creditors . .	500	0	0
			Deducted per contra, being six months' rent at £240 per annum 120 ——	150	0	0		2710	0	0
150	0	0	Manager's salary . 150 Deducted per contra 50 ——	100	0	0	Deduct preferential creditors as per contra— £ Rent . . . 120 Manager's salary 50 ——	170	0	0
								2540	0	0
300	0	0	Contingent liability in respect to a contract not completed . . .	300	0	0	Contingent assets (memo).			
			Contingent liability (memo).				Deficiency	1010	0	0
£6420	0	0		£3550	0	0		£3550	0	0

TRUSTEES' ACCOUNTS

Certain stringent rules of the Board of Trade compel the trustee in bankruptcy to keep and render accounts, and to pay all cash into the Bankruptcy Estates Account at the Bank of England (unless a local account has been authorized by the Board of Trade). The accounts must be audited every six months, first by the committee of inspection, if such has been formed, and then by the Board of Trade. The accounts required at audit are—

RECI

Date.	Particulars.	Total. £	s.	d.	Drawn from bank. £	s.
	To deposit on creditor's petition .	5	0	0		
	„ sale of jewellery surrendered by debtor	10	0	0		
	„ sale of shares in public companies	786	10	3		
	„ Bankruptcy Estates Account being auctioneer's charges .				18	8
	„ amount received from Thomas Booth	230	10	0		
	„ Bankruptcy Estates Account .					
	Board of Trade, *ad valorem* fee .				10	0

The Record Book, containing the minutes and other business dealt with at the meetings of the committee of inspection.

A report on the position of the estate.

The verified copy of the Estate Cash Book.

The instructions for keeping the Estate Cash Book are as follows:—

"Particulars of each receipt and payment should be so fully entered in this book as sufficiently to explain its nature, and in case of payments for rent, rates, taxes, and wages, the period for which the payment is made should be clearly stated.

"All bank transactions, whether with local banks or Bankruptcy Estates Account, should be duly entered in bank columns, save only when local banks are used for purposes of transmission to the Bankruptcy Estates Account, in which case the payments to the latter account alone should appear in the bank columns.

"When a business is carried on, a Trading Account should be kept as a distinct account, and the weekly totals of receipts and payments respectively should alone be entered in this book.

"Distinct accounts are to be kept and rendered of the joint and separate estates."

At the first audit, the trustee also sends a copy of the front sheet and schedules of the Statement of Affairs.

The annexed is a specimen page of an Estate Cash Book.

At the date of declaring each dividend a statement showing the position of the estate is forwarded to the creditors with notice of dividend. An example is given on pp. 330, 331.

QUESTIONS AND EXERCISES

179. Give an example of a full statement of affairs of an insolvent debtor for a meeting of creditors.

180. Prepare an imaginary Deficiency Account for inclusion in a bankrupt's statement of affairs, and as nearly as may be in the statutory form.

181. Give a ruling of an Estate Cash Book kept by a trustee in bankruptcy.

182. Samuel Hobson, in business in the city, finds himself insolvent. From the various books and papers in his possession the following particulars as to his financial position are forthcoming. Prepare the statement of affairs for submission to his creditors, and a Deficiency Account in the ordinary form:—

	£
Sundry debtors—Good, £1280; doubtful, £2800 (estimated to produce £1000); bad, £700	4,780
Sundry freehold houses, etc. (estimated to produce, £2000)	3,300

The Bankruptcy Acts, 1883 & 1890.

In the County Court of Lancashire, holden at .

IN BANKRUPTCY. **NO. 23 of 1905.**

IN THE MATTER OF CHARLES SOMEBODY.

(Under Receiving Order, dated 12th day of June, 1905, on Creditor's Petition.)

Statement showing Position of Estate at Date of declaring Fourth and Final Dividend.

	Estimated to produce, per debtors' statement. £	s.	d.	Receipts. £	s.	d.
To total receipts from date of receiving order, viz.—						
Cash deposited with solicitor for costs of petition				5	0	0
Deposit on petition				5	0	0
Cash in hand	30	11	6	30	11	6
Stock-in-trade	4100	0	0	4307	12	0
Machinery						
Trade fixtures, fittings, utensils, etc.	20,400	0	0	8500	0	0
Furniture	50	0	0			
Book debts as per list (I) . . .	3434	16	11	2555	8	8
Bills of exchange or other similar securities on hand	4	17	7	4	16	8
Surplus from securities in the hands of creditors fully secured	11,595	1	5	0	0	0

	£	s.	d.	Payments. £	s.	d.
By Board of Trade and court fees (including stamp of £5 on petition)				134	8	0
Law costs of petition . . .	13	0	9			
Other law costs	295	1	5			
Board of Trade commission on realization	83	11	9	391	13	11
Trustee's remuneration as fixed by the committe of inspection, viz.—						
$1\frac{1}{2}$% on £14,960 0*s*. 8*d*. assets realized	223	11	10			
2% on £12,675 17*s*. 8*d*. assets distributed in dividend . .	253	10	4	477	2	2
Special manager's charges				25	4	0

	£	s.	d.	£	s.	d.
Receipts per Trading Account				10,511	17	4
Other receipts				225	0	4
Total	£39,615	7	5	26,145	6	6
Less—						
Deposit returned to petitioner	5	0	0			
Payments per Trading Account	9,548	16	5			
Other payments by special manager	858	16	10	10,412	13	3
				£15,732	13	3

	£	s.	d.	£	s.	d.
Person appointed to assist debtor under s. 70 of the Bankruptcy Act, 1883				5	5	0
Auctioneer's and valuer's charges, as taxed				40	6	0
Other taxed costs				56	18	6
Cost of notices in *Gazette* and local papers				4	14	10
Expenses of committee of inspection				15	11	0
Incidental outlay				150	3	2
Ad valorem duty on application of release				18	15	0
Reserved for printing, postage, and other incidental expenses attending application for release, etc.				3	3	9
Total cost of realization				1,828	5	4
Allowance to debtor for services as manager				168	0	0
Purchaser of vacant land, Oak Road, liable to a ground rent of £49 14*s*. 6*d*.				1,000	0	0
Creditors, viz.—	£	s.	d.			
2 for rent	227	14	8			
Preferential	337	15	7			
101 unsecured—						
1st dividend declared of 10*s*. in the £ on £15,173 3*s*. 8*d*.	7586	11	9			
2nd dividend declared of 4*s*. in the £ on £15,173 3*s*. 8*d*.	3034	11	11			
3rd dividend declared of 2*s*. in the £ on £15,173 3*s*. 8*d*.	1517	6	4			
4th and final dividend now declared of 8½*d*. in the £ on £15,173 3*s*. 8*d*.	537	7	11	13,241	7	11
The debtor's estimate of amount expected to rank for dividend was nil. A surplus was expected.						
				£15,732	13	3

	£
Shares—1000 ordinary shares in the Cable Telegraph Co., valued at par	1,000
Mining and railway shares (£2500 are held as security by partly secured creditors, and the balance by fully secured creditors)	9,450
Loss through the unsuccessful defence of an action at law	5,420
Business expenses	3,200
Creditors—unsecured	16,740
" partly secured	5,420
" fully secured	3,110
Preferential claims for salaries and rent	500
Private drawings	1,200
Samuel Hobson—Capital Account	3,800
Cash at bank	420
Bills receivable, good	800

183. Frederick Milnthorpe, of Corporation Street, Manchester, commenced business on January 1, 1905, as an oil merchant, with a capital of £850.

On December 31, 1906, his books showed the following :—

Sundry debtors, £675 6*s.* 3*d.*; sundry creditors, £1988 2*s.* 6*d.*; bills payable, £550; loan owing, £1000; stock, £518 7*s.* 9*d.*; office furniture, £74 1*s.* 10*d.*; rent owing, £100; salaries owing, £25.

Make out a Deficiency Account suggesting how the deficiency has arisen.

184. Prepare from the following figures a statement of affairs of A. B. and Co., to be presented at a meeting of creditors. The date is March 15, 1904.

	£	s.	d.
Debtors as per Schedule I.	14,045	16	11
Creditors unsecured, as per Schedule II.	6,841	3	10
Creditors secured—			
J. Jones	2,048	0	0
Security—2810 preference shares in the Z. Company, Ltd., valued at	2,810	0	0
T. Robinson	17,148	9	2
Securities—6500 preference shares in the Q. Company, valued at	6,500	0	0
Debt due from D. Clyte, valued at	6,262	11	2
Debt due from H. Johns, valued at	1,494	17	11
7350 shares in the Patent Engine Co., Ltd., valued at	3,509	0	0
Creditors partly secured—			
Bank	332	14	4
A. Brown	8,893	11	2
Securities (three debts) valued at	182	1	2
Landlord for rent	345	19	6
Furniture and fixtures	254	6	9
Interest in company to be formed, valued by A. B. at	5,000	0	0

185. Green and Smart are in partnership as drapers, and find they are

unable to meet their liabilities. You are instructed to examine their books, and you find that the liabilities are as follows:—

	£
Trade creditors	3000
Cash creditors—Mrs. Green	500
Miss Smart	300
(It is expected that Mrs. Green will not press her claim.)	
James Jones, secured by mortgage on premises, the estimated value of which is £1250	1000
Creditors—	
Wages	50
Rates and taxes	30
Rent (distrainable)	100

And the assets (in addition to the property mortgaged to Jones)—

Sundry debtors—	£		£
Good	600		
Doubtful	300	estimated to produce	100
Bad	200		
Stock	1000	,, ,,	700
Fixtures and fittings	300	,, ,,	150
Cash in hand	20		

Prepare a statement of affairs to be presented to the creditors.

CHAPTER XXIII

LIQUIDATIONS, RECONSTRUCTIONS, AND AMALGAMATIONS

Statement of Affairs—Contributories—Examples of Statement of Affairs and Deficiency Accounts—Statement of Realization of the Estate—Examples of Reconstruction and of Amalgamation.

THE first point to be considered in liquidations is how to commence the proceedings. If the company is insolvent, the creditors will probably arrange the preliminary details by presenting a petition against it, with the result that the court will make a winding-up order for compulsory liquidation after hearing the petition.

However, cases will more frequently happen where the company takes the first step, in which case voluntary liquidation will probably be decided upon; though in this case any creditors or contributories (as the shareholders are called at this stage) may apply to the court that the liquidation shall continue either as a compulsory one, or under the supervision of the court.

For a company to put itself into liquidation on the achievement of its object, or the expiration of time or happening of the event prescribed for its dissolution, an ordinary resolution to that effect only is necessary. If the company cannot carry on its business owing to its liabilities, an extraordinary resolution will suffice, whilst in other cases a special resolution is necessary.

The first point in the accounts of a liquidation matter is the preparation of a statement of affairs, which in a compulsory liquidation is very similar to that prepared in bankruptcy, and is filed with the court in the prescribed form.

If the company is insolvent, but the statement is being submitted to the shareholders only for a voluntary liquidation, no

EXAMPLE

In the matter of the Companies Acts, 1862 to 1900

AND

SPECULATION & CO., Limited, Engineers, Folly Lane, Manchester

Statement of Affairs on February 25, 1906, the date of Extraordinary Resolution to wind up the Company.

Liabilities.

	£	s.	d.	£	s.	d.
Debts and liabilities, viz.—						
Unsecured creditors				834	16	3
Fully secured creditors	75	12	6			
Estimated value of securities . . .	84	2	6			
Estimated surplus (carried to contra)	8	10	0			
Partly secured creditors	67	4	11			
Less estimated value of securities .	16	0	0	51	4	11
Debentures £3000 0 0						
Debenture interest . . 156 18 6	3156	18	6			
Less estimated value of assets as per contra	1298	0	6	1858	18	0
Preferential creditors for rent, salaries, and wages, deducted contra . . .	120	14	2			
				£2744	19	2

Assets.

	£	s.	d.	£	s.	d.
Property, viz.—						
Cash at bankers				0	4	8
Stock-in-Trade, estimated to realize				540	0	0
Machinery and plant ,, ,,				570	0	0
Loose tools ,, ,,				120	0	0
Models and drawings ,, ,,				50	0	0
Fixtures and fittings ,, ,,				50	0	0
Office furniture ,, ,,				25	0	0
Book debts:—						
Good	53	11	0			
Doubtful	9	19	7			
Bad						
	63	10	7			
Estimated to realize				55	0	0
Surplus from securities in hands of fully secured creditors				8	10	0
				1418	14	8
Less preferential creditors as per contra				120	14	2
Estimated total net assets, deducted contra				1298	0	6
Estimated deficiency, subject to cost of liquidation				2744	19	2
				£2744	19	2

N.B.—The Nominal Capital of the Company amounted to £10,000, of which £3000 was subscribed. No calls unpaid.

ALFRED NIXON, CHARTERED ACCOUNTANT,
Victoria Buildings, Manchester.
RECEIVER AND LIQUIDATOR.

To ______________________

set form is provided, but something similar to a statement of affairs for a compulsory liquidation will probably be prepared.

In preparing this statement we must put aside our general notions of bookkeeping, for we are no longer dealing with the book-value of the assets of a going concern, but are required to deal with the actual value of the assets belonging to a business which will, in all probability, shortly be broken up at such a price as a forced realization will fetch, and that very likely under the hammer.

Company liquidation accounts and forms correspond so closely with those in bankruptcy that we need only mention the special features.

In the statement just given, the shares were fully paid, and therefore no further claim can be made by the creditors on the shareholders, as would have been the case had the shares been only partly paid.

Should the shares be but partly paid, and the assets be insufficient to meet the liabilities of the company, then the liquidator would make a call to the extent of the uncalled amount, or as much as would enable him to settle the company's obligations.

One of the first duties of a liquidator in the winding up of a company is to settle the lists of contributories, *i.e.* persons liable to contribute to the settlement of the debts and liabilities of the company being wound up. Two lists are prepared, A and B. On the A list all present members are entered, and on the B list all persons who have been shareholders at any time within twelve months prior to the winding up.

Only in the event of the contributions from those on the A list being insufficient to discharge the liabilities of the company will resort be made to those on the B list; and the liability of the B contributory is limited to the amount unpaid on his shares by the corresponding A contributories, and if on the winding up there are debts which were incurred while he was a member.

On our front page of the statement of affairs we have, in addition to the particulars furnished in a bankruptcy statement, particulars of share capital set out in Schedules L, M, and N, which consist of founders' shares, ordinary shares, and preference shares respectively, and giving consecutive number,

register number, name, address, nominal amount of shares held, number of shares held, amount per shares called up, total amount called up; and the deficiency explained in Schedule O.

Such officials of the company as may be required to prepare the statement must sign each sheet, and on the front page appears their affidavit to say that they "make oath and say that the foregoing statement and the several lists hereunto annexed are to the best of my knowledge and belief a full, true and complete statement of the affairs of the above-named company on the day of (the date of the winding-up order)."

To thoroughly explain the method of preparing the statement of affairs, let us assume that we are instructed to prepare such an account for a company against whom a winding-up order was made on June 30, which happens to be the company's year end. The books are duly balanced, and the following is the trial balance at that date:—

Example I

Trial Balance

June 30, 190—

	Dr.	Cr.
Capital Account—	£	£
Ordinary shares		5,000
Preference shares		3,000
Calls in arrear	100	
Creditors		6,340
Mortgages		4,000
Debentures		5,000
Bank overdraft		1,760
Agent's commission		40
Preferential creditors		300
Debtors	5,631	
Stock	8,620	
Land and buildings	5,000	
Machinery and plant	3,720	
Profit and Loss Account	2,369	
	£25,440	£25,440

The inquiries which we make show that the calls in arrear are expected to realize £70, the stock at a forced realization £6400, and of this the agents hold as samples and for small deliveries about £60, and the machinery is estimated to produce

In the High Court of Justice

COMPANIES (WINDING-UP). *No.* *of 19*

IN THE MATTER OF THE COMPANIES ACTS, 1862 TO 1900,

AND

* Insert full name of Company.

IN THE MATTER OF* THE BLANK COMPANY, LIMITED.

STATEMENT OF AFFAIRS on the thirtieth day of June, 190 , the date of the Winding-up Order.

(I.) AS REGARDS CREDITORS

Gross liabilities. £	s.	d.	Liabilities.	£	s.	d.	Expected to rank. £	s.	d.
6340	0	0	Debts and liabilities, viz.— (a) 107 Unsecured creditors, as per list "A" (State number.)				6340	0	0
			(b) 2 Creditors fully secured (not including debenture holders) as per list "B"	4040	0	0			
4040	0	0	Estimated value of securities	5060	0	0			
			Estimated surplus . .	1020	0	0			
			Carried to list "C" . .	1000	0	0			
			Balance to contra (d) .	20	0	0			
1760	0	0	(c) 1 Creditor partly secured, as per list "C"	1760	0	0			
			Less estimated value of securities	1000	0	0			

Assets.	£	s.	d.	Estimated to produce. £	s.	d.
(a) Property, as per list "H," viz.—						
(a) Cash at bankers						
(b) Cash in hand						
(c) Stock-in-trade						
(Estimated cost, £8560) . . .				6,340	0	0
(d) Machinery				1,500	0	0
(e) Trade fixtures, fittings, utensils, etc.						
(f) Investments in shares, etc. . . .						
(g) Loans on mortgage						
(h) Other property, viz.—						
(b) Book debts (debtors), as per list "I," viz.—						
Good				3,961	0	0
Doubtful	1187	0	0			
Bad	483	0	0			
	£1670	0	0			

£	s.	d.		£	s.	d.		£	s.	d.
			Estimated to rank for dividend . .	760	0	0	Estimated to produce	295	0	0
372	0	0	(*d*) Liabilities on bills discounted other than the Company's own acceptances for value, as per list "D" . . . . . £372 0s. 0d. Of which it is expected will rank for dividend				(*c*) Bills of Exchange or other similar securities on hand, as per list "J" . . . . . . £ *nil* Estimated to produce			
			(*e*) Other liabilities as per list "E" . . . . £ s. d. Of which it is expected will rank for dividend				(*d*) Surplus from securities in the hands of creditors fully secured (per contra) (*b*) .	20	0	0
							(*e*) Unpaid calls (debtors) as per list "K" . . . . . . £100 0s. 0d. Estimated to produce	70	0	0
300	0	0	(*f*) 84 Preferential Creditors for rates, taxes, wages, etc., as per list "F" deducted contra . . . £300 0s. 0d.				Estimated total assets.	12,186	0	0
							Deduct preferential creditors, as per contra (*f*).	300	0	0
5000	0	0	(*g*) Loans on debenture bonds, as per list "G" deducted contra . . . . . . £5000 0s. 0d. (holders)				Estimated amount available to meet claims of debenture holders . .	11,886	0	0
				7100	0	0	*Deduct* loans on debenture bonds secured on the assets of the Company as per contra (*g*) . .	5,000	0	0
			Estimated surplus (if any) after meeting liabilities of Company, subject to cost of liquidation				Estimated amount available to meet unsecured creditors subject to cost of liquidation . .	6,886	0	0
							Estimated deficiency of assets to meet liabilities of the Company, subject to cost of liquidation	214	0	0
£17,812	0	0		£7100	0	0		£7,100	0	0

The nominal amount of unpaid capital liable to be called up is *nil*, which is [available to meet above deficiency] or [charged to debenture holders], or as the case may be.

(II.) AS REGARDS CONTRIBUTORIES

(a) Where capital is issued as partly paid up, the form should be altered accordingly.

(b) Add particulars of any other capital.

	£	s.	d.	£	s.	d.		£	s.	d.
Capital issued and allotted, viz.—							Estimated surplus as above (if any) subject to cost of liquidation . .			
Founders' shares of £ per share (shareholders). (a) Issued as fully paid. Amount called up at £ per share, as per list "L"										
5000 Ordinary shares of £1 per share . . (23 shareholders). (a) Issued as fully paid. Amount called up at £1 per share, as per list "M"	5000	0	0	5000	0	0				
3000 Preference shares of £1 per share . (18 shareholders). (a) Issued as fully paid. Amount called up at £1 per share, as per list "N"	3000	0	0	3000	0	0				
(b)										
Amount (if any) paid in advance of call . £										
Less unpaid calls estimated to be irrecoverable. . . . . £										
Add deficiency to meet liabilities as above				214	0	0	Total deficiency as explained in Statement "O"	8214	0	0
				£8214	0	0		£8214	0	0

I, ______________________________ of ______________________________

make oath and say that the foregoing statement and the several lists hereunto annexed marked ______ are, to the best of my knowledge and belief, a full, true, and complete statement of the affairs of the above-named Company, on the ______ day of ______ 19 , the date of the winding-up order.

Sworn at ______________________

in the County of ______________________

the ________ *day of* ______________ 19 .

Before me ______________________

____

A Commissioner for Oaths.

Signature ______________________

The Commissioner is particularly requested, before swearing the Affidavit, to ascertain that the full name, address, and description of the Deponent are stated, and to initial all crossings-out or other alterations on the printed form. A deficiency in the Affidavit in any of the above respects will entail its refusal by the Court, and will necessitate its being re-sworn.

No. C. 33.—*Statement of Affairs. Company's Winding up.*

LIST "O." (2). **Deficiency Account.**

(2) Deficiency Account where Winding-up Order made **MORE THAN THREE YEARS AFTER** formation of Company.

	£	s.	d.
I. Excess of assets over capital and liabilities on the[1] 30th day of June, 19— (three years before date of statement of affairs) (if any) as per company's balance sheet	5,810	0	0
II. Gross profit (if any) arising from carrying on business from the[1] 30th day of June, 1	20,940	0	0
III. Deficiency as per statement of affairs	8,214	0	0
Total amount to be accounted for[5]	£34,464	0	0

	£	s.	d.	£	s.	d.
I. Excess of capital and liabilities over assets on the[1] 30th day of , 1 (if any), as per company's balance sheet						
II. Expenses of carrying on business from the[1] 30th day of June, 1 , viz.:—						
Salaries and wages	18,000	0	0			
Rent, rates, and taxes	1,580	0	0			
Miscellaneous trade expenses .	6,419	0	0			
Depreciation written off in company's books	600	0	0			
Interest on loans	1,420	0	0	28,019	0	0
III. Bad debts (if any) as per List "I"[2]				1,375	0	0
IV. Directors' fees from the[1] 30th day of June, 1 .				600	0	0
V. Dividends paid (if any) since the[1] day of 1						
VI. Losses on investments realized since the[1] day of , 1 , exclusive of depreciation written off as above, viz.[4]						
VII. Depreciation on property not written off in company's books, viz.[4]						
Stock				2,220	0	0
Machinery and plant				2,220	0	0
VIII. Other losses and expenses (if any)[3] since the[1] day of , 1 , viz.[4]						
IX. Unpaid calls, as per List "K" . .	100	0	0			
Less: Amount taken credit for in front sheet as estimated to be realized therefrom, as per List "K" .	70	0	0			
Balance estimated as irrecoverable				30	0	0
Total amount accounted for[5]				£34,464	0	0

[1] Three years before date of winding-up order.
[2] This list must show when debts were contracted.
[3] Here add particulars of other losses or expenses (if any) and liabilities (if any) for which no consideration received.
[4] Where particulars are numerous they should be inserted in a separate schedule.
[5] These figures should agree.

Signature ————————

Dated 190—

£1500. Of the book debts £3961 are considered good, £483 are bad, and the remaining debts are doubtful, and are estimated to produce £295.

The land and buildings are, of course, subject to the mortgage, and the bank hold after that is satisfied a second charge as partial security for their overdraft. The various particulars required for the Deficiency Account are not set out in detail here, but reference to the statement will show how these items have been obtained.

This form of Deficiency Account is used when the company has been trading for upwards of three years; in other cases an amended form is substituted, showing in similar detail the entire transactions of the company since its flotation. The amendment, in fact, is merely the omission of the opening item on each side, which, of course, is not applicable to a new company.

Separate meetings are called of the creditors and the contributories, presided over by the official receiver, and the appointment of a liquidator is discussed, and nominations for the position are given. The court, after hearing the result of the meetings, appoints the liquidator, who then has to give security to the Board of Trade, who have the right to object to the appointment.

Supposing that no such objection is made, and the security is satisfactory, the liquidator must notify the registrar of joint stock companies, and is then in a position to act.

The liquidator having been appointed, the accounts which he keeps take the simple form of a Receipts and Payments Account; which, however, is a formidable-looking book, on account of the numerous analysis columns provided to show at a glance the full receipts or payments under every conceivable heading. The form is as follows:—

LIQUIDATOR'S CASH ACCOUNT

RECEIPTS

Date.	Particulars.	Total.	Drawn from bank.	Debts collected.	Property realised.	Receipts from securities held by creditors.	Calls, other receipts.

PAYMENTS

Date.	Particulars.	Voucher number (in red).	Total.	Paid into bank.	Cost of realization.							Preferential creditors (sect. 40) and rent.	Payment to redeem securities.	Dividends paid.	Repayments to contributories.	Other payments.
					Board of Trade and Court fees.	Law costs of petition.	Law costs after order.	Charges of auctioneer, accountant, shorthand writing etc.	Official receiver for remuneration.	Notice in *Gazette* and local papers.	Incidental expenses, including possession.					

The liquidator, in addition, where he has carried on the business, must keep a Trading Account, which is also a statement of receipts and payments only—

Dr. Cr.

Date.	Receipts.	£	s.	d.	Date.	Payments.	£	s.	d.

This Trading Account must be audited at least once a month by the committee, or by one of them specially deputed by the others to do this work, and the weekly totals are incorporated with the company's Cash Book in the "other receipts" columns. The Cash Book is audited at least once every three months by the committee, and every six months by the Board of Trade. For the latter, two copies of the Cash Book must be sent to the inspector-general in bankruptcy, one a facsimile of that kept by the liquidator as given above, and the other omitting the various analysis columns on each side, consisting therefore of the first four columns on the receipts side, and the first five on the payments side. This smaller copy, after audit, is placed on the file of proceedings. With these copies the following documents are sent: All vouchers, all allocaturs (certificates as to costs required by law to be taxed by the court), the Record Book (which corresponds to the Minute Book, but contains additional information as to the progress of the proceedings), certain pages of the statement of affairs (only necessary at the first audit), Pass Book (if local bank is authorized), etc.

The entries in the Cash Book will proceed on the ordinary lines, but the following points should be borne in mind: all receipts are to be paid gross into the bank (a local bank if specially authorized, otherwise the Bank of England, Law Courts Branch, Companies Liquidation Account), and the dividends as and when paid appear in one item only in the accounts for each dividend.

The next item involving accounts is in connection with the

statement of the realization of the estate when a dividend is paid, or the liquidator applies for his release. This statement appears in the form shown on p. 347.

This statement is, of course, the natural conclusion of a liquidation, and our accounts, so far as compulsory liquidation is concerned, end here. The accounts relating to voluntary liquidation vary, inasmuch as it is not necessary for them to prepare the statement of affairs, Deficiency Account, Cash Book, nor final statement of realization in the official forms given above, although, as a matter of practice, the principle underlying these forms is usually followed.

In all classes of liquidation, if the winding up is not concluded within one year from its commencement, the liquidator must file with the registrar of joint stock companies, under sect. 15 of the Companies (Winding-up) Act, 1890, a statement in the prescribed form, showing the position of affairs at date, and such statement may be inspected by any person stating himself in writing to be a creditor or contributory or his agent, and such person may take extracts therefrom, or may demand a copy of it, subject to the payment of a reasonable fee.

Under the same section, any moneys appearing from such statement to have been in the hands of the liquidator for six months, representing unclaimed dividends or undistributed assets, must forthwith be paid into the Companies Liquidation Account at the Bank of England. These amounts are repayable to the true owner on the certificate of the Board of Trade that he is entitled to the money.

After the first statement has been rendered, future statements are to be made up at such intervals as may be prescribed, which is at present every six months, until the conclusion of the liquidation.

Having dealt with the liquidation of those companies whose losses have been such as to make reconstruction hopeless, we may now consider companies which, despite records of satisfactory profits and being in a fairly sound position, are compelled, by the force of circumstances, to resort to liquidation.

In order to contrast fully the two methods we will again set out the statement of affairs of the company referred to on p. 337, and deal with it by means of a reconstruction. Finding that they are becoming pressed for money, and the accounts

REALIZATION STATEMENT

	Estimated to produce, per company's statement. £	s.	d.	Receipts. £	s.	d.
To total receipts from date of winding-up order—						
Machinery and plant	1,500	0	0	1,472	0	0
Stock	6,400	0	0	5,065	0	0
Book debts—						
Good	3,961	0	0	3,580	0	0
Doubtful and bad	295	0	0	310	0	0
Land and buildings	5,000	0	0	4,800	0	0
Total	£17,156	0	0	£15,227	0	0
„ Receipts per Trading Account						
Other receipts						
Less payments to redeem securities	9,965	0	0			
Costs of execution						
Payments per Trading Account				9,965	0	0
Net realizations				5,262	0	0
Amounts received from calls on contributories				100	0	0
				£5362	0	0

	£	s.	d.	Payments. £	s.	d.
By Board of Trade and court fees				308	0	0
By Law costs of petition	47	0	0			
Other law costs	162	0	0	209	0	0
Liquidator's remuneration—						
4 per cent. on £5262 assets realized	215	0	0			
2½ per cent. on £4050 assets distributed in dividend	101	0	0	316	0	0
Special manager's charges—						
Persons appointed to assist in preparation of statement of affairs				21	0	0
Auctioneer's charges as taxed				87	0	0
Other taxed costs						
Costs of possession				32	0	0
Costs of notices in *Gazette* and local papers				4	0	0
Incidental outlay				85	0	0
Total cost of realization				1012	0	0
Creditors—						
84 preferential	300	0	0			
112 unsecured dividend of 10*s*. in the £ on £8100	4050	0	0			
The estimate of amount expected to rank for dividend was £7100						
Amount returned to contributories				4350	0	0
Balance						
				£5362	0	0

Assets not yet realized, including calls, estimated to produce £
(Add here any special remarks the liquidator thinks fit.)

coming out unfavourably, the directors, calling a general meeting of the company, give notice of the resolution to be submitted, which is to the effect that the company shall be wound up on account of being unable to meet its liabilities.

Example II

Statement of Affairs

June 30, 1906

Liabilities.	£	£	*Assets.*	Book value. £	Estimated to realize. £
Unsecured creditors (trade) . .		6340			
			Machinery and plant .	3720	1,500
Creditors fully secured .	4040		Stock	8560	6,340
Less value of security	5060		Book debts—		
			Good		3,961
	1020		Doubtful and bad, £1670		295
Transferred to partly secured creditor .	1000		Calls in arrears . . .	100	70
Balance to contra .	20		Surplus from creditors fully secured . . .		20
Bank overdraft . . .	1760				
Less security . . .	1000				12,186
		760	Less preferential creditors.		300
Preferential creditors—					
For wages	300				11,886
Debenture holders .	5000		Less debenture holders		5,000
Deducted contra					6,886
			Deficiency		214
		£7100			£7,100

A meeting of shareholders is held, at which the above statement is submitted, and as a result of the directors' activity, the unsecured creditors finally accept the following scheme: that they shall receive promissory notes for the amount of their debts from the company, carrying interest at 6 per cent. per annum, and one-tenth of the capital to be paid back each year. Any creditor may, however, elect, instead of the foregoing arrangement, to accept twelve shillings and sixpence in the pound, payable within three months. The present shareholders agree to subscribe for at least £3000 additional capital.

The various secured and preferential creditors had, of course, to be arranged with, the former agreeing to let their loans to the

company stand and hold their present security; whilst the latter, of course, had to be paid in full at once.

The preference shares were preferential as to capital as well as to dividend, and therefore were in a strong position; but when the creditors had been arranged with on the basis given above, further meetings were held to settle the terms as between the various classes of shareholders. Assets were to be acquired at their book values, except the book debts, which appeared at their realizable value, and the estimated cost of reconstruction amounted to £256. Under these circumstances the preference shareholders agreed to sacrifice £1000, and for each share of their present holding to receive one share in a new company, to be formed to take over the assets as above, such shares to have the same rights and privileges as the present preference shares, and to be issued as fully paid up, the nominal value being thirteen shillings and fourpence per share. The ordinary shareholders were to receive an ordinary share of eight shillings in the new company for each pound share in the old company.

To raise the additional capital it was agreed that £4000 should be taken up by all the shareholders proportionately to their present holding, and that such shares should be of the nominal value of eight shillings, and should rank equally with the ordinary shares already issued. These shares were duly applied for and allotted, and a call of six shillings a share was made on them and duly paid up by all the shareholders.

Creditors amounting to £4900 elected to take promissory notes, whilst the remainder, amounting to £1440, took their dividend, which equalled, of course, £900.

The problem set before us is to show the accounts as they will appear up to this stage in the books of our new company, and the following Journal entries are accordingly made, as the business was agreed to be taken over from July 1.

	Dr.	Cr.
	£	£
July 1. Sundry assets—		
To sundry liabilities—		
Machinery and plant	3720	
Stock	8620	
Land and buildings	5000	
Book debts	5631	
Calls in arrears	100	
To Sundry Creditors Account . .		6340
„ mortgagee		4000
„ debenture holders		5000
„ bank		1760
„ agent		40
„ preferential creditors . . .		300
„ reserve for bad and doubtful debts		1375
„ Vendors' Account		4000
„ liquidation expenses		256
Being sundry assets and sundry liabilities taken over as per purchase agreement, dated August 15, and adopted Minute Book, folio 7.		
Aug. 15. Vendors	4000	
To Preference Share Capital Account .		2000
„ Ordinary Share Capital Account .		2000
Being 3000 preference shares of 13*s.* 4*d.* each, fully paid up, and 5000 ordinary shares of 8*s.* each, fully paid up, allotted to shareholders in old company per terms of agreement.		
Application and Allotment Account . .	3000	
To Ordinary Share Capital Account .		3000
Being 1*s.* on application and 5*s.* on allotment, making 6*s.* per share payable on 10,000 shares of 8*s.* each allotted this day per minute book, folio 8.		
Aug. 31. Sundry creditors	540	
To Capital Reserve Account		540
Being amount written off the claims of creditors accepting the composition of 12*s.* 6*d.* in the £ (equals 7*s.* 6*d.* in the £ on £1440).		
Sundry creditors	4900	
To loan creditors		4900
Being creditors accepting promissory notes carrying 6 per cent. per annum interest on old debt—Capital repayable £490 per annum.		

CASH ACCOUNT

Dr.		£			Cr. £
Aug. 15.	To Application Account	500	July 1.	By balance	1760
„ 18.	To Allotment Account	2500	Aug. 28.	„ agent	40
„ 19.	To Calls in Arrear Account	100	„	„ preferential creditors	300
„ 31.	To balance	156	„	„ liquidation expenses	256
			„	„ sundry creditors .	900
		£3256			£3256
			Aug. 31.	By balance	156

The various Ledger Accounts are not particularized, as they follow the ordinary company work, but the students should post them for practice to see the manner in which the accounts are dealt with. It will be noticed in the Cash Account the opening item is the overdraft owing by the old company, as it was arranged that the stock and book debts would provide sufficient working capital, and the company did not wish to pay at the rate of 6 per cent. on an overdraft they did not require; but the bank undertook with the new company and the other creditors to allow an overdraft if required, on the understanding that such overdraft should be reduced proportionately with the liability to the other creditors who held the company's promissory notes.

The mortgagee and debenture holders agreed, as before stated, to allow the transfer of the ownership of the assets covered by their security to the new company, whilst the other secured and the preferential creditors were at once paid off, so as to fully release the assets of the company at once and enable them to commence, or rather continue, business with free hands.

Before the passing of the Memorandum of Association Act, 1890, a company frequently went into liquidation to enlarge its powers with regard to the "objects" of the company; but since this Act such a necessity does not often arise, because by that Act, with the sanction of a special resolution and the leave of the court, this may now be done without the formalities and expense of liquidation. Such cases, however, when they do arise do not call for very special comment, as the new company will usually allot identical holdings to the old shareholders, and the opening entries in the books of the new company do not vary from that of any other company which takes over a going concern.

There is, however, another form of liquidation which arises from the absorption of one successful company by another, in which the closing entries of the liquidating company and the corresponding entries in the books of the new company are required either for examination or for practical purposes.

Example III

In this example the A. Company agrees to purchase the business as a going concern of the B. Company on the understanding that for each share of the nominal value of £10 in the B. Company the shareholders shall receive three shares of £1 each in the A. Company, the market value of which is £3 each, and £6 in cash. The A. Company also agrees to redeem the debenture debt at 110 per cent. and pay the liquidation expenses, which amount to £500.

The Balance Sheet of the B. Company at June 30 last, when the business is taken over, was certified as follows:—

THE B. COMPANY, LIMITED

Balance Sheet

June 30

Liabilities.	£	*Assets.*	£
Capital issued and paid up, 10,000 shares of £10 each	100,000	Land and buildings . . .	51,000
Debenture stock redeemable at option of company at 110 per cent.	50,000	Machinery and plant . . .	48,400
Sundry creditors	48,642	Stock	38,340
Reserve Account	15,000	Sundry debtors	72,702
Profit and Loss Account . .	5,000	Bank	8,200
	£218,642		£218,642

The closing entries in the books of the B. Company will be—

Cash Book

Dr.	£	Cr.	£
June 30. To balance . . .	8,200	July 3. By Realization Account	8,200
July 3. " A. Co., Ltd. .	115,000	" 4. " liquidation expenses	500
" " A. Co., Ltd., for liquidation expenses . . .	500	" " debenture holders.	55,000
		" " shareholders . .	60,000
	£115,500		£115,500

JOURNAL

		£	£
July 3.	Realization Account. Dr.	218,642	
	To land and buildings		51,000
	„ machinery and plant		48,400
	„ stock		38,340
	„ sundry debtors		72,702
	„ bank		8,200
	Being assets transferred to purchasers.		
„	Sundries. Dr.		
	To Realization Account		68,642
	„ creditors	48,642	
	„ Reserve Account	15,000	
	„ Profit and Loss Account	5,000	
	Being liabilities taken over by purchasers.		
„	Realization Account. Dr.	5,000	
	To Debentures Account		5,000
	Being agreed premiums on redemption.		
„	A. Company, Ltd. Dr.	205,000	
	To Realization Account		205,000
	Being agreed purchase price.		
„	Shares Account (A. Company, Ltd.). Dr.	90,000	
	To A. Company, Ltd.		90,000
	Being 30,000 shares of £1 each, valued at £3 each, allotted to our nominees per agreement.		
„	Shareholders. Dr..	90,000	
	To Shares Account		90,000
	Being transfer to them of above shares.		
„	Capital Account. Dr.	100,000	
	Realization Account. Dr.	50,000	
	To shareholders		150,000
	To close the company's books		

REALIZATION ACCOUNT

		£			£
July 3.	To sundry assets .	218,642	July 3.	By liabilities . . .	68,642
	„ Debentures Account premium on redemption.	5,000	„	„ A. Company, Ltd.	205,000
	„ Shareholders Account for profit on realization .	50,000			
		£273,642			£273,642

A. Company, Limited

	£		£
July 3. To purchase price .	205,000	July 3. By cash	115,000
		„ „ shares	90,000
	205,000		£205,000

The Journal entries on the same day in the books of the A. Company are also given.

		£	£
July 3.	Sundry assets (specifying them). Dr. . .	218,642	
	To Purchase Account (B. Company, Ltd.)		218,642
„	Purchase Account (B. Company, Ltd.) Dr.	48,642	
	To sundry liabilities		48,642
„	Purchase Account (B. Company, Ltd.). Dr.	205,000	
	To liquidator of B. Company, Ltd. . . .		205,000
„	Liquidator of B. Company, Ltd. Dr. . .	205,000	
	To cash		115,000
	„ Ordinary Shares Account.		30,000
	„ Purchase Account (being profit on issue of shares in part payment) . . .		60,000
	For cash and 30,000 ordinary shares of £1 each issued in payment for net assets per agreement, Minute Book, folio .		
„	Purchase Account (B. Company, Ltd.). Dr.	500	
	To cash for liquidation expenses agreed to be paid		500
„	Purchase Account (B. Company, Ltd. Dr..	24,500	
	To Capital Reserve Account (or premium on Shares Account)		24,500
	Being excess of net assets acquired over liabilities and nominal purchase consideration.		

If the actual value of the assets acquired had not been the amount shown by the books, the purchasing company should have them revalued and shown at the corrected figure. It will be noticed that in the selling company's books the outstanding assets and liabilities which are handed over to the purchasers are dealt with at the book figure, whilst the purchase consideration is stated at its actual or market value. On the other hand, the purchasers in their books state the consideration at its nominal figure, and deal with the assets and liabilities taken over only at the actual amount at which the assets are valued, or the amount which will have to be paid to an outside creditor. Thus to balance the books, the vendors credit their Realization Account with the credit balance of their revenue accounts; whilst,

as it has not to be paid to any one, the purchasers do not debit their account with this figure.

The question with regard to amalgamation raises many issues already dealt with, but as they hold some points peculiar to themselves we give below an example of this class of work.

Example IV

Let us suppose that three companies which carry on a similar business, in order to reduce competition and cost of production, agree to amalgamate.

Their balance sheets on September 30 were drawn up and showed the following figures.

A. and Company, Ltd.

Liabilities.	£	*Assets.*	£
Capital 2000 shares of £10 each	20,000	Land and building	5,000
4 per cent. debentures redeemable at £110 per cent.	10,000	Machinery and plant	15,640
Creditors	17,800	Debtors	22,450
Profit and Loss Account	7,840	Stock	8,920
		Bank balance	3,630
	£55,640		£55,640

B. Company, Ltd.

Liabilities.	£	*Assets.*	£
Capital 6000 shares of £5 each	30,000	Land and building	2,100
Creditors	17,640	Machinery and plant	14,550
Profit and Loss Account	6,220	Debtors	20,315
		Stock	16,020
		Bank	875
	£53,860		£53,860

C. Bros., Ltd.

Liabilities.	£	*Assets.*	£
Capital Account (25,000 shares of £1 each)	25,000	Land and buildings	6,500
5 per cent. debentures redeemable at 120 per cent.	15,000	Machinery and plant	20,034
Creditors	18,060	Debtors	18,620
Profit and Loss Account	3,950	Stock	14,010
		Bank	2,846
	£62,010		£62,010

The following adjustments were made on the balance sheet —A.'s land on valuation was increased to £8000, B.'s stock had been valued on a different basis to the others, and was reduced by £2000, whilst the goodwill of the companies was valued by agreement at £4160, £1780, and £1050, respectively.

The trade creditors were taken over by the new company, but the vendors were left to make their own arrangements with their shareholders and debenture holders. From these figures it will be seen that the purchase prices worked out to A. £45,000, B. £36,000, C. £45,000, which was paid by the allotment of shares and 4 per cent. debentures redeemable at par in the new company in the proportion of two to one, except C. who received £5000 in cash instead of the full quantity of shares, out of which they had to pay their liquidation expenses, which amounted to £125; the other concerns who received no cash being allowed £100 each for the expenses, which covered the cost of the same.

A. and Co. arranged with their debenture holders to issue to them debentures in the new concern to the nominal value of 110 per cent. of their present holding, which left them 30,000 shares of £1 each, and £4000 debenture stock to be divided amongst their present shareholders, which was equal to 15 shares and £2 debenture stock for each share of £10 held in the present company.

The B. Company's shareholders received 4 shares of £1 each, and £2 debenture stock for each £5 share, amounting to 24,000 shares, and £12,000 debenture stock in all.

C. Bros., Ltd., received 25,000 shares, £15,000 debenture stock, and £5000 cash. Their debentures were redeemable at 120 per cent., and the holders took in settlement an allotment of the stock for the nominal amount of their holding in C. Bros. and cash £3000. The shareholders were allotted one share in the new company for each share they held in the old concern and one shilling and sixpence in cash, which absorbed £1875 and left £125 cash for expenses of liquidation.

The entries set out in the Journal for the purpose of closing the accounts will appear as follows in the books of A. and Co. Ltd.:—

	£	£
Realization Account Dr.	55,640	
To sundry assets (set out in detail) . .		55,640
For assets taken over by purchasers.		
Sundry liabilities. Dr.	25,640	
To Realization Account		25,640
For liabilities written off to realization.		
Purchase Account. Dr.	45,000	
To Realization Account		45,000
Being agreed purchase price.		
Shares (new company). Dr..	30,000	
Debenture (new company)	15,000	
To Purchase Account		45,000
Realization Account. Dr.	15,000	
To debentures (being premium payable on same)		1,000
To Shareholders Account		14,000
For profit on realization.		
Debentures (old company). Dr. . . .	11,000	
To debentures (new company) . . .		11,000
For stock transferred.		
Capital. Dr.	20,000	
To shareholders		20,000
Shareholders. Dr.	34,000	
To shares (new company)		30,000
„ debentures (new company) . . .		4,000

For securities given in exchange, 15 ordinary shares and £2 debenture allotted for each share in A. and Co., Ltd.

The liquidation expenses of £100 might be debited and credited to Realization Account from the Cash Book as they are paid by the new company.

From the examples given in this chapter the closing entries of the other two companies may be worked out for practice by the reader.

The opening entries of the new company will largely depend on the manner in which it is intended to keep the accounts for the future. If it is proposed to give full departmental trading accounts, the fixed assets of each branch will probably be kept distinct, in which case the following entries will appear in the Journal.

		£	£
Sept. 30.	Sundry assets. Dr.		
	To sundry liabilities—		
	Land and buildings (Branch A.). Dr.	8,000	
	Machinery and plant (Branch A.). „	15,640	
	Debtors . . . . „	22,450	
	Stock (Branch A) . . . . „	8,920	
	Bank . . . . „	3,630	
	Goodwill (Branch A) . . . . . „	4,160	
	To creditors		17,800
	„ A. and Co., Ltd. Purchase Account		45,000
	Being assets and liabilities taken over per agreement, dated October 29, confirmed Minute Book, folio .		
	A. and Co., Ltd. Dr.	45,000	
	To ordinary share capital		30,000
	„ 4 per cent. mortgage debenture stock		15,000
	Being shares and stock issued to nominees in satisfaction of purchase price per Minute Book, folio .		
	Sundry assets. Dr.		
	To sundry liabilities—		
	Land and buildings (Branch B) . . .	2,100	
	Machinery and plant „ . . .	14,550	
	Debtors	20,315	
	Stock (Branch B)	14,020	
	Bank	875	
	Goodwill (Branch B)	1,780	
	To creditors		17,640
	„ B. Co., Ltd. (Purchase Account) .		36,000
	Being assets and liabilities, etc.		
	B. Company, Ltd. Dr.	36,000	
	To ordinary share capital		24,000
	„ 4 per cent. mortgage debenture stock		12,000
	Being shares and stock, etc.		
	Sundry assets. Dr.		
	To sundry liabilities—		
	Land and buildings (Branch C). Dr.	6,500	
	Machinery and plant „ „	20,034	
	Debtors . . . . „	18,620	
	Stock (Branch C) . . . . „	14,010	
	Bank . . . . „	2,846	
	Goodwill (Branch C) . . . . . „	1,050	
	To creditors		18,060
	„ C. Bros., Ltd. (Purchase Account)		45,000
	Being assets and liabilities, etc.		
	C. Bros., Ltd. Dr.	45,000	
	To ordinary share capital		25,000
	„ 4 per cent. mortgage debenture stock		15,000
	„ cash		5,000
	Being share and stock, etc.		

In addition to the above, the two items of £100 each liquidation expenses of the A. and B. Companies will, of course, require to be paid through the Cash Book, and will be posted probably to Preliminary Expenses Account.

QUESTIONS AND EXERCISES

186. What is meant by B. contributories? What is their liability?

187. Mention the particulars furnished on Schedules L, M, and N.

188. Outline a Deficiency Account in the case of the winding up of a company.

189. In January, 1901, Brown sold a holding of 500 £1 shares, 10*s.* paid, in the X., Y., Z. Co., Ltd., to Jones. In November, 1901, the company, having in the meantime called up a further 5*s.* per share, went into liquidation. What would Brown's position be?

190. On December 31, 1900, the trial balance of the books of the A. B. Co., Ltd., after adjustment, was as follows:—

	£		£
Furniture and plant	6,174	Capital	33,334
Stock	14,305	Creditors—	
Debtors	3,384	Unsecured	24,082
„ for rent	28	Preferential—	
Calls in arrear	216	For wages, rents, rates	
Cash	340	and taxes	1,716
Goodwill	9,642		
Preliminary expenses	2,296		
Leasehold premises	4,224		
Profit and loss	18,523		
	£59,132		£59,132

The financial position being unsatisfactory, you are required to compile a comprehensive statement of affairs to submit to a meeting of creditors, and are given the following additional information:—

(*a*) The contingent liability (not included in the above) in respect of the unexpired period of the lease is estimated at £2400.

(*b*) Valuations of the following have been obtained, in view of a sale, either as a going concern or by auction:—

	Going concern. £	s.	d.	Breaking-up. £	s.	d.
Stock	9536	0	0	7200	0	0
Furniture and plant	5370	0	0	3600	0	0
Goodwill	4000	0	0			
Leasehold premises	500	0	0			
Debtors	3069	0	0	2800	0	0

The liquidator of the A. B. Company, Ltd., prepared a scheme of reconstruction based on the book values as at December 31, 1900 (particulars of which

are set out in the preceding question), which was submitted to and approved by shareholders and creditors. Dates may be disregarded.

The following is an outline of the Reconstruction Scheme adopted :—

(*a*) New company to be formed under the style of the A. B. Company, 1901, Ltd., and to acquire the assets and goodwill of the old company on the basis of the book values.

(*b*) Nominal capital, £50,000, viz.: Ordinary shares, 33,332 at 10*s*., £16,666; preference shares, 33,334 at £1, £33,334.

(*c*) For each share in the old company the holders to apply for one preference share in the new company, and to receive also (as nearly as possible) one ordinary share, credited as fully paid.

N.B.—33,334 preference shares were allotted and paid for, and 33,332 ordinary shares were distributed.

(*d*) Unsecured creditors of the old company have offered to them a composition of 10*s*. in the £, payable on the formation of the new company, or a debenture for the full amount of their debts bearing interest at 5 per cent., and repayable in ten years. One half in value accepted the cash composition, the other half agreed to take debentures.

(*e*) The lease of the premises to be taken over by the new company with the consent of the landlord.

(*f*) The liquidation and standing charges, amounting to £500, and all other preferential claims to be satisfied by the new company, to whom the liquidator will hand over all assets, none of which, with the exception of the calls in arrear (which have been paid), it is to be assumed have been realized.

You are requested to draft the Journal entries necessary to open the books of the new company, and record the allotment of capital; and to compile a Balance Sheet setting forth the position as at the date of the allotment of shares.

CHAPTER XXIV

INSURANCE

Registers—Agents—Advances on Policies—Revenue Receipts—Books—Schedules

The accounts of companies of this class are exceedingly interesting by reason of the many special points arising in connection with them. In one respect they resemble banks and similar financial houses inasmuch as their dealings consist almost entirely of cash and securities of the class known as "gilt-edged." The accounts are governed chiefly by the Life Assurance Companies Act, 1870. This Act provides for a special form of Balance Sheet, and also requires an actuarial valuation of the net liabilities of the company every ten years if established before the Act, otherwise every five years. Some of the larger companies, however, now make a valuation on their own account annually, or at any rate more frequently than their statutory obligation.

Every company must also publish a Balance Sheet and Revenue Account in the form set forth in the schedules of the Life Assurance Companies Act of 1870; and supply a printed copy of same to every shareholder and policy holder on request being made.

A special feature in the accounts is the use made of "registers" in which are recorded particulars of policies and renewals; such ledgers being, in fact, tabular ledgers for policy holders' premiums.

Policies and Premiums

Perhaps the simplest manner of showing the method of dealing with the accounts is to commence with the issue of a new policy and follow the course of the dealings relating to it through the books.

Let us assume that on March 25 a proposal form from Mr. Smith (whose age next birthday is thirty) for an insurance of £1000 and profits payable at death has been accepted at a rate of £2 10*s*. per cent. per annum. An entry is forthwith made in the New Policies Book to show particulars of the policy, the amount of the present premium and the future premiums, the amount of the present payments being analysed into "Office policies" and "Agents policies," and further columns are also provided in which the date and Cash Book folio for the payments made to the office are entered up, and an Agents Ledger folio for the entries posted to the agents column.

This book thus forms a self-balancing ledger as well as a tabular ledger since the totals of the premiums payable on "New policies (Office)" will be posted to a special account in the Nominal Ledger, debiting a "Sundry Debtors for New Policies," and crediting "Premiums Account."

When Mr. Smith pays his premium the receipt of it will be recorded in the special Cash Book known as the Premiums Cash Book which records the date, policy number, and name of the person from whom it is received, and special money columns for "New policies" and "Renewals," the totals of which are carried each day into the General Cash Book, from which they are posted periodically to the totals accounts for "New policies" and "Renewals" respectively.

If the insurance had been effected through an agent, the premium would have been debited to the Agents' Account in the Agents Ledger, which is itself a subsidiary, self-balancing ledger, details of which we shall see later, and the policy would have been forwarded at once to the agent, who, when he forwarded the remittance, would have deducted his commission and expenses, and such receipt would appear in the Agents' Remittances Book.

In future years Mr. Smith's premium would be entered in the Renewals Book, which is ruled to show the particulars of the policy and the amounts of the premiums for a number of years, each of which would be provided with a date column for the date of payment, and also a remarks column to set out particulars of any policy extinguished with reference to the "Policies Extinguished Book."

The total for each year will be added and posted to the debit

of a totals account for "Debtors for Renewals," and credited to the "Premiums Account."

The cash received on all renewals will be entered in the Premiums Cash Book before referred to, carried to the General Cash Book, and posted from there to the credit of the "Debtors Account."

The "Policies Extinguished Book" will contain particulars of any policies lapsed or matured, together with the amount of the premiums which had been previously charged out, and have now to be written back. The total of these will be debited to Premiums Account and credited to the "Debtors for Renewals." The balance of this latter account agreeing with those items in the Renewals Book which had not been entered as paid, and also agreeing with the receipts which have not been used. As a check on the cashier's department, all items for renewals have formal receipts written out for them by another department which are given to the cashier, and these receipts are handed, when paid, to the policy-holders. All premiums for renewals payable at the office which are not entered as received will, therefore, require to be vouched by the production of these receipts, which are, of course, not countersigned, and will be duly cancelled and recorded in the Policies Extinguished Book.

We have already alluded to the Agents' Remittances Book, which is used to record all items of this nature. The book is ruled to show the date, name of agent, counterfoil receipt number, commission deducted, allowances, amount of remittance, and a total column with a posting folio to the Agents Ledger. The total cash is entered in the General Cash Book, from which it is credited to the "Agents' Account" in total; the commission and allowances being posted direct to the Nominal Ledger.

Special books are provided with the ruling already described to record the "renewals" and "extinguished policies" which have been issued through agents only, of course, in this case whilst the nominal posting still goes to Premium Account, the contra in the Personal Account appears in "agents" instead of "debtors for renewals." The same routine with regard to receipts is observed with the agents as with the cashier. Formal receipts being issued to him for each renewal debited against

him, which he must countersign and issue in exchange for the premium; any policy not renewed must be reported on and the receipt returned with his list.

Investments

We have now to consider the other items of revenue which concern Insurance Companies, the chief of which is the interest or income received from their investments. The investments may for our purposes be broadly divided into three classes. The first of these is the advances which they make on the security of their own policies, which advance, of course, will never exceed the surrender value, and is therefore fully secured. The second class is formed by the freehold and similar property held by them, occupied frequently by their own offices, but also usually containing other suites of offices which are let to various occupiers. The third class consists of other investments, which in the case of an old-established and thoroughly sound concern will consist of securities of the best class, the income from which may be regarded as thoroughly safe and regular in its payment. This latter class is subdivided in the accounts required by law under various headings, such as mortgages within the United Kingdom, investments in British Government securities, railway and other debentures, and debenture stocks, etc.

A special set of books will be used for the first class, setting out, by means of a self-balancing ledger, the advance made on every policy. The interests on these loans are usually arranged to fall on the same day as the premium on the particular policy; but such interests are not recorded in this book, all appearing in a similar book to that provided for renewals, and thus being a tabular and self-balancing system in itself. If the interest is paid always at the same time as the policy, the receipt of it may be conveniently recorded by means of a separate column in the Premiums Cash Book. The total of this column will be credited to the "Debtors for interest on loans on policies," which is an account of the totals only, and worked in a similar manner to that adopted for the "Debtors for renewals."

The ledger itself dealing with the capital accounts of the loans is particularly easy to balance separately, as by reference to the General Cash Book it will be seen that special columns

are provided for loans on policies granted and repaid, and in the general system these columns are posted in total only to a "Loans on Policies Account;" the balance of this account must, of course, agree with the balances extracted in detail from the special ledger.

The income from the second class of investment does not call for any special comment, as rental accounts are very much the same whoever the proprietor may be. They can be kept as an entirely separate set of books, and if desired a distinct bank account may be opened, the balance of which is transferred quarterly to the General Account, to cover the income for the period.

The income arising from the other investments is treated in the manner with which our readers should be quite familiar. It is recorded in a special book or books, which are usually sub-divided to correspond with the dates when the income will be received. As the return from some of these investments is variable, all cannot be priced out before the dividend or interest warrant is actually received, as in the case of premiums or loan interest, but otherwise the procedure is the same. The "Dividends Book" will contain columns to show the number in the Investment Ledger, particulars of the investment, including name and nature of the security, nominal amount of security, rate of interest or dividend, if fixed, when due (all of which can be filled in periodically), date when received, Cash Book folio, gross amount, deduction for income tax, net amount received. In this book it is best to debit the "Sundry Debtors for Dividend" with the gross income, and credit them with cash paid and the income tax deducted, debiting the Commissioners of Inland Revenue with this latter amount.

The investments themselves will, of course, appear in the special ledger, which is self-balancing, on the "loan principle," though in this case adjustments are frequently necessary on the realization of the various securities as and when they may be realized or changed. It is the invariable practice of insurance companies to build up a very substantial reserve to deal with fluctuations in the money market, which, of course, affect very largely the value of their investments. In this ledger also the company may record the capital value of their land and building investments as well as their other securities.

Annuities

The consideration for annuities is another heading in the accounts which calls for attention, though this is with many companies a very small figure compared with the other items which we have been discussing. Here, of course, the nature of the transaction is quite different to other transactions of an insurance company. Usually a substantial amount is paid to the company, which in return pays to the annuitant an annual sum during his or her lifetime. When the amount is received it is entered into the General Cash Book, in the column for special posting, whilst the payments are made through a separate book ruled with columns to cover a number of years. The annuities will be classified so that all the items payable on the same date can be easily added and entered in one figure in the Cash Book as and when paid.

We have now dealt with the various subsidiary sections and come to the general system, into which it is necessary to collect the various accounts from the numerous details which we have before us.

Accounts

The first book of this system is the General Cash Book, which is a specially arranged book to minimize the posting as far as possible. A specimen ruling for this important book is given on p. 367.

Additional columns may be added if desired, to deal with the question of bonuses, whether commuted for cash, or paid on the maturing or surrender of the policy. The folio columns show which items require to be separately posted, except in the case of investments and loans on policies, in which cases the reference is to the subsidiary ledger.

A Petty Cash Book will be kept to deal with all the ordinary items of expenditure paid in cash, which amount to a fairly substantial figure, and which, by means of analysis, are periodically transferred to the appropriate nominal account.

A Journal is also used to record the various transfers, adjustments, and reserves necessary from time to time, and from these books the final accounts are prepared, together with certain

CASH RECEIVED

Date.	Particulars.	Counterfoil receipt number.	Details.	Banked.	Amounts realized.				Interest received.		Premiums.	Consideration for annuities.	Agents' remittances.	Folio in General Ledger.	Other receipts.
					Folio Invest. Ledger.	Investments.	Folio Loans Ledger.	Loans on policy.	Investments.	Loans on policies.					
			£ s. d.	£ s. d.		£ s. d.		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.		£ s. d.

CASH PAID

Date.	Particulars.	Voucher number.	Amount.	Payments on—				Claims paid.	Policy number.	Surrenders.	Policy number.	Annuities paid.	Expenses.		Other payments.	
				Folio.	Investments.	Folio.	Loans on policy.						Folio.	Amount.	Folio.	Amount.
			£ s. d.		£ s. d.		£ s. d.	£ s. d.		£ s. d.		£ s. d.		£ s. d.		£ s. d.

items entered from the subsidiary books, which have been already particularized, such as income tax and agents' commission.

The forms of these final accounts are, as previously stated, incorporated as a schedule to the Life Assurance Companies Act, 1870; and as these have been made the subject of questions in many examinations, a well-prepared candidate should study the forms and understand them. With the notes included in this chapter, it is hoped that the examples which follow will be readily understood by him.

Every five years a valuation must be made of the company's liabilities and assets, including specially the liability to policy-holders and annuitants, after taking into account the premiums which will be received from holders of current policies. This is made up by means of tables showing the expectation of life of the various policy-holders, and after that by mathematical calculation. As, however, this is an actuarial and not an accounting problem, it is not proposed in this volume to go more deeply into the subject. It will, of course, be understood that the actual position of an insurance company can only be ascertained by a statement of this description, and the ordinary accounts are more in the nature of interim statements.

Before leaving the subject of life assurance companies, it may be interesting to note that by special Acts they are required to deposit with the Chancery Court, before they commence business, £20,000, which amount carries interest, and is returnable to the company when the insurance fund, accumulated out of premiums, amounts to not less than £40,000. It is also necessary for any company dealing in other classes of insurance, as well as life insurance, to keep their Life Accounts distinct, and the funds raised by life insurance are only applicable to the requirements of the policy-holders and other creditors of the life department until they have received twenty shillings in the pound.

It will be noticed that in the foregoing notes, life insurance only has been treated, but it is the most important branch of the work, added to which the receipts form the principal part of the insurance company's system, and that is very similar for all classes of insurance.

The question of claims, on account of its greater detail,

FIRST SCHEDULE

REVENUE ACCOUNT OF THE —— INSURANCE COMPANY FOR THE YEAR ENDED DEC. 31

	£	s.	d.		£	s.	d.
Amount of funds at the beginning of the year	1,137,856	0	0	Claims under policies (after deduction of sums reassured) . .	70,822	0	0
Premiums (less reassurances)	92,486	0	0	Surrenders	16,805	0	0
Consideration for annuities granted . . .	3,422	0	0	Annuities	6,211	0	0
Interest and dividends .	45,736	0	0	Commission	3,822	0	0
Other receipts, viz.—				Expenses of management	6,880	0	0
Assignment fees . .	43	0	0	Dividends and bonuses to shareholders . .	2,500	0	0
				Amount of funds at end of year, as per second schedule	1,172,503	0	0
	£1,279,543	0	0		1,279,543	0	0

SECOND SCHEDULE

BALANCE SHEET OF THE —— INSURANCE COMPANY ON DECEMBER 31

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
Share capital paid up .	100,000	0	0	Mortgage on property within the United Kingdom	317,620	0	0
Assurance fund . . .	1,172,503	0	0				
Profit and Loss Account	34,620	0	0				
Total funds as per first schedule	1,307,123	0	0	Mortgages on property out of the United Kingdom	294,115	0	0
Claims admitted but not paid	8,500	0	0	Loans on the company's policies	46,110	0	0
Other sums owing by the company—				*Investments*—			
Outstanding expenses	1,420	0	0	In British Government securities	110,067	0	0
Outstanding reassurance premiums . .	3,000	0	0	In Indian and Colonial Government securities	33,642	0	0
				In foreign Government securities	48,220	0	0
				In railway and other debentures and debenture stocks . . .	150,314	0	0
				In railway shares (ord. and pref.)	106,590	0	0
				In house property . .	84,661	0	0
				In other investments —municipal stocks .	80,000	0	0
				Loans on personal security	300	0	0
				Agents' balance. . .	15,020	0	0
				Outstanding premiums	3,843	0	0
				Outstanding interest .	10,692	0	0
				Cash on deposit . . .	10,000	0	0
				In hand and on current account	8,849	0	0
	£1,320,043	0	0		£1,320,043	0	0

necessarily requires more particular attention in other classes of insurance, which it should be remembered are merely contracts of indemnity—that is to say, on a fire happening, an assured should not receive more than he has actually lost. For example, if a man has insured his stock for £2000, but at the time a fire took place, which completely destroyed it, his stock was only worth £1500, he would only receive the lower figure. On the other hand, the law of average applies, so that if a man held stock worth £2000, but was only insured for £1500, and a fire occurred which destroyed one-half of his stock, he would receive from the insurance company £750 only, and not £1000, as the law would presume that he had accepted the risk for the remaining £500 himself, and that he therefore must bear a proportionate part of the loss.

When a claim occurred it would be duly entered in the Claims Book, which would record particulars of the policy and claim, and further columns would be added to show the amount or manner in which it was finally settled, and the date of the payment of the claim.

The development of insurance in all directions within recent years is a most interesting subject, and now there seems to be no business risk which cannot be insured against.

At this point we may call attention to the fact that allowance will be made by the income tax authorities for the amount paid for life assurance premiums up to, but not exceeding, one-sixth of the net personal income. This deduction was until recently only allowed on the premiums paid to British offices; but, under the Finance Act of 1906, the allowance extends to premiums paid to any insurance company if lawfully carrying on business in Great Britain or Ireland, and this may bring in American offices which transact considerable business in this country.

Further, it may be noticed that life policies are frequently used as securities for advances from bankers and others, or from the insurance company itself. The value of the security mainly depends upon the surrender value, which is of slight amount until, say, three or four years' premiums have been paid.

Example I

After closing the Revenue Account, the trial balance of the Reliable Assurance Society, as on December 31, 1904, was as follows:—

	Dr.	Cr.
	£	£
Funds at the end of the year		305,292
Cash at the bank	11,346	
Mortgages on property within the United Kingdom	86,146	
British Government securities	46,450	
Loans on reversions	10,000	
Foreign Government securities	25,723	
Railway companies' debentures	15,014	
Sundry creditors		3,089
Railway companies' shares	40,827	
House property	28,519	
Loans on society's policies	21,861	
Agents' balances	4,117	
Claims admitted but not paid		1,000
Outstanding premiums	13,114	
Outstanding interest	1,964	
Furniture	4,300	
	£309,381	£309,381

Let us now prepare the Balance Sheet in the form prescribed by the Life Assurance Companies Act, 1870, which is as hereunder: –

Balance Sheet of the Reliance Assurance Society on December 31, 1904

Liabilities.	£	*Assets.*	£
Assurance Fund	305,292	Mortgages on property within the United Kingdom	86,146
Claims admitted but not paid	1,000	Loans on societies' policies	21,861
Sundry creditors	3,089	Investments—	
		In British Government securities	46,450
		Foreign Government securities	25,723
		Railway debentures	15,014
		Railway shares	40,827
		House property	28,519
		Furniture	4,300
		Loans on reversions	10,000
		Agents' balances	4,117
		Outstanding premiums	13,114
		„ interest	1,964
		Cash at bankers	11,346
	£309,381		£309,381

EXAMPLE II

REVENUE ACCOUNT FOR THE

	£	s.	d.
Reserve for unexpired risks brought forward from 1903	489,066	11	2
Premiums, less re-insurances	1,306,180	1	4
Income from investments (less income tax)	91,444	11	8
	£1,886,691	4	2

PROFIT AND LOSS ACCOUNT FOR THE

		£	s.	d.
Balance brought forward from 1903		349,859	9	4
Deduct—				
Dividend paid January, 1904	£54,000 0 0			
Dividend paid July, 1904	60,000 0 0	114,000	0	0
		235,859	9	4
Balance from Revenue Account		117,909	5	3
Transfer fees		46	17	6
		£353,815	12	1

BALANCE SHEET AT

Liabilities.	£	s.	d.
Capital—£2,400,000.			
240,000 shares of £10 each, 10*s.* per share paid	120,000	0	0
N.B.—2,500 of these shares are held by the office but are not included among the investments.			
General reserve	1,350,000	0	0
Special reserve	120,000	0	0
Dividend reserve	120,000	0	0
Investment reserve	42,134	12	11
Reserved for risks not yet expired, being 40 per cent. of the premium income for the year	522,472	0	6
Pension fund	44,496	19	11
Balance at credit of Profit and Loss Account	243,941	3	9
	2,563,044	17	1
Outstanding losses	123,482	7	2
Agents' balances	18,016	0	5
Amounts due to other offices for re-insurances	47,251	2	6
Bills payable	1,812	16	3
Reserve for outstanding commission and charges	10,500	0	0
Clerks deposit fund	8,965	17	4
Dividend warrants uncleared	2	0	0
	£2,767,525	0	9

YEAR ENDING DECEMBER 31, 1904

				£	s.	d.
Losses				797,976	14	6
Commission	£214,228	6	11			
General expenses	234,104	17	0			
				448,333	3	11
Reserve for unexpired risks at December 31, 1904, being 40 per cent. of premium income				522,472	0	6
Balance carried to Profit and Loss Account				117,909	5	3
				£1,886,691	4	2

YEAR ENDING DECEMBER 31, 1904

	£	s.	d.
Income tax on profits	4,332	9	9
Loss on exchange	1,510	5	4
Bad debts	31	13	3
Carried to general reserve	100,000	0	0
Carried to pension fund	4,000	0	0
Balance carried to Balance Sheet	243,941	3	9
	£353,815	12	1

DECEMBER 31, 1904

Assets.	£	s.	d.	£	s.	d.
Investments:—						
Mortgages on property within the United Kingdom	181,595	19	6			
Mortgages on property outside the United Kingdom	10,000	0	0			
British Government securities	71,250	0	0			
Indian and Colonial Government securities	51,019	10	4			
Foreign Government securities	131,026	19	3			
Railway and other guaranteed, preference, and ordinary shares and stocks	291,980	19	3			
Railway debentures and debenture stocks	420,447	9	11			
Other debentures and debenture stocks and municipal bonds	268,997	10	4			
House property, including premises occupied by the office	868,254	7	0			
Salvage corps premises	19,143	12	11			
Other investments	6,254	16	0			
Deposits with colonial banks	23,550	0	0			
				2,343,521	4	6
Branch and agency balances				217,332	6	9
Due by other offices				8,583	8	4
Outstanding premiums (since received)				38,797	18	7
Bills receivable				9,040	14	0
Cash on deposit and at bankers, and in hand				150,249	8	7
				£2,767,525	0	9

Example III

REVENUE ACCOUNT FOR YEAR ENDING DECEMBER 31, 19—

		£	s.	d.
To balance from last year, as per report . . .		380	11	7
„ premiums—less bonuses and returns—				
Accident department . .	£263,132 5 4			
Fire department . . .	90,865 3 7			
Monthly payment department	52,940 12 3			
	£406,938 1 2			
Less re-insurances . . .	47,739 6 5			
		359,198	14	9
„ interest and rents, received and accrued . .		8,602	10	1
„ transfer fees		25	12	6
		£368,207	8	11

	£	s.	d.
By claims and commission—paid and estimated	254,265	14	3
„ expenses of management	76,111	15	9
„ advertising	3,788	13	5
„ directors' and auditors' fees and expenses .	1,955	1	1
„ premium on bonds—proportion written off .	294	0	0
„ depreciation of property and furniture, and repairs	1,085	5	1
„ agents' balances written off as irrecoverable	138	7	11
„ loss on exchange of investments	312	0	1
„ balance	30,256	11	4
	£368,207	8	11

BALANCE SHEET, DECEMBER 31, 19—

		£	s.	d.
To subscribed capital—400,000 shares of £1 each	£400,000			
„ paid up capital		99,997	0	0
„ reserve fund, including reserve for unexpired risks		130,000	0	0
[This fund will now amount to £150,000.]				
„ reserve for estimated claims and outstanding accounts		45,433	1	3
„ reserve for premiums paid in advance . .		259	3	2
„ reserve for investments redeemable at par .		1,021	5	10
„ unclaimed dividends		92	16	1
„ balance of revenue account .	£30,256 11 4			
Less interim dividend .	2,499 5 10			
		27,757	5	6
		£304,560	11	10

	£	s.	d.
By investments at cost and cash (detailed) . .	250,045	10	11
„ agency and other company nett balances, less estimate for commission	42,175	14	9
„ sundry debtors	1,894	6	4
„ interest accrued on investments	1,749	10	1
„ furniture and fittings at head office, London, Paris, and other branch offices	8,695	9	9
	£304,560	11	10

N.B.—In addition to the above funds there is £300,000 of capital at call as security for policy-holders.

The example given on pp. 372, 373 of the annual accounts of one of the oldest companies in the country is of interest as illustrating the provision of a reserve of 40 per cent. of premium income for unexpired risks; and also as including in the Balance Sheet special reserves in addition to the general reserve.

In our third example we give the accounts of a company with accident and fire departments; these may profitably be examined and contrasted with those of a life office, previously given.

QUESTIONS AND EXERCISES

191. Describe the entries made in the accounts for premiums received.

192. What particulars are given in the Agents' Remittance book?

193. State the sources from which an insurance company derives its revenue.

194. State the classes of securities in which investments are made by an insurance company.

195. Give a form of General Cash Book suitable for an insurance company.

196. The Steadfast Insurance Company, Ltd., was registered in 1900, and during that year the whole of the share capital (consisting of 100,000 shares of £1 each) was paid up in full. Submit *pro forma* accounts for the year ended December 31, 1905, in accordance with the provisions of the Life Assurance Companies Act, 1870, and point out wherein the form of prescribed accounts varies from that usually employed by companies registered under the Companies' Acts, 1862–1900.

197. Give a *pro forma* example of the Revenue Account of an insurance company.

198. What is the average clause in a fire insurance policy?

199. On December 31, 1900, the balances of the General Ledger of the Holdfast Assurance Company were as follows: Funds as on December 31, 1899, £1,557,060; Premium Account, £142,000; Claims Account, £70,050; annuities paid, £1,260; Commission Account, £6,032; Interest and Dividends Account, £51,000; Transfer Fees Account, £105; Surrenders Account, £11,201; Management Expenses Account, £18,670; Shareholders' Dividends Account, £2,500; Claims admitted but not paid Account, £7,200; Sundry Creditors Account, £3,980; mortgages in the United Kingdom, £1,201,450; loans on policies, £50,060. Investments: Government stocks, £204,000; British railways, £138,200; house property, £7,500; agents' balances, £12,200; outstanding premiums, £9,200; outstanding interest, £12,040; cash at bank, £16,982. Prepare Revenue Account and Balance Sheet as on December 31, 1900.

200. An insurance company, having a paid-up capital of £80,000 in 80,000 fully paid-up £1 shares, and a reserve of equal amount, invested in securities to the amount of £150,000, and outstanding balances and cash, £10,000, is absorbed by another company; the consideration being £65,000 in cash, and the allotment of one share of £25 (£2 10*s*. paid, and standing in the market at £19 per share in the purchasing company) for every sixteen shares of their own company.

Close the books of the vendor company, and show how the transactions will appear in those of the purchasing company.

CHAPTER XXV

COLLIERIES

Capital Expenditure—Royalties—Minimum or Dead Rent and their Treatment in the Accounts—Waggons and the Hire-Purchase System—Cost Accounts.

In this chapter it is proposed to deal with some peculiarities of this class of accounts, and to do this it will perhaps be of assistance to briefly consider the whole circumstances of the business.

The proprietor presumably has obtained either the freehold or a lease of the land and has agreed to pay to the owner of the mineral rights a royalty of so much a ton for the coal removed, and has also spent a considerable amount by way of capital expenditure in sinking the mine and putting it in a position of yielding coal.

This capital expenditure will consist mainly of two classes: the one represented by ordinary tools and machinery, which, on the expiration of the lease, or the giving out of the mineral, could be removed practically without damage or expense, and which, if properly depreciated, should realize a very considerable percentage of the figure at which it appears in the books. This will also include engines, boilers, machinery, pumps, weigh-bridges, waggons, locomotives, etc., all of which are depreciated in the ordinary manner by a process fixed on their estimated life.

The second class of capital expenditure is that on equipment and plant, which, if it could be removed, would scarcely pay for the expenses connected with such an operation. To this latter class will belong the cost of the mine itself, sinking, ventilating and shafting, pit frames, cages and gear, all the colliery buildings (including probably the majority of the cottages built for the miners), any private tram-lines or railway-lines laid down for the purpose of working the colliery.

The depreciation of this section may be treated in many different ways. Firstly, following the usual construction put on the judgment in *Lee* v. *Neuchatel Asphalte Company,* it is probably not necessary, legally, to write anything at all off expenditure of this nature; secondly, if the property is leasehold, it may be written off over the period of the lease if the mine is expected to be in full working order for such period; thirdly, an estimate may be made of the mineral obtainable during the lease (if leasehold), or total estimated output of the mines (if freehold), and such expenditure may then be written off by means of a royalty of so much per ton charged to a depreciation fund, so that by means of this royalty on the estimated output, the total amount originally sunk is written off on the closing of the mine.

It is most essential that all charges in the nature of revenue or replacements should be debited direct to the Profit and Loss Account, and not be treated as a capital addition. This includes the development of the underground working to replace such portions of the mine as are becoming useless, as well as renewals to machinery, etc.

Royalties—Minimum Rent

Let us now turn to the agreement with the owner of the mine, and see how and when we are to pay our rent. This agreement follows the lines of many such agreements, and provides that for the whole term a minimum or "dead rent" of £750 per annum shall be paid. It also provides for a royalty of 8*d.* in the ton on all coal raised, with the proviso that such royalty shall "merge" the dead rent, that is, the royalty *or* the rent shall be paid to the landlord each year, whichever is the greater; and, further, that if in the earlier years, owing to the mine not being in full producing order, the minimum rent has to be paid, that any amount paid in excess of what the royalty should have been, may be deducted from future royalties payable in excess of the minimum rent during the first ten years of the company's existence.

The following is the number of tons raised during the earlier years of the colliery:—

				£		
1906	. .	6,000 tons equals		200 royalty for the year.		
1907	. .	18,000	„	600	„	„
1908	. .	30,000	„	1,000	„	„
1909	. .	31,500	„	1,050	„	„
1910	. .	30,000	„	1,000	„	„

As previously mentioned, for the year 1906 the minimum rent of £750 must be paid, but at the year's end, when it is found that the royalty amounts to £200 only, the difference of £550 will be transferred to a "Minimum Rent Redeemable" Account, and will stand as an asset in the books, and any future royalties payable in excess of the minimum of £750 will be credited here instead of to the landlord, whilst any balance remains.

The entries to record the above facts are set out below in Journal form—

		£	£
1906.			
Dec. 31.	Minimum rent. Dr.	750	
	To landlord		750
„	Royalties Account. Dr.	200	
„	Minimum rent redeemable. Dr. . .	550	
	To minimum rent		750
„	Profit and Loss Account. Dr. . . .	200	
	To royalty		200

(Asset in Balance Sheet of December 31, 1905—"Minimum rent redeemable, £550.")

		£	£
1907.			
Dec. 31.	Minimum rent. Dr.	750	
	To landlord		750
„	Royalties Account. Dr.	600	
„	Minimum rent redeemable. Dr. . .	150	
	To minimum rent		750

In 1907, therefore, £600 will be debited to Profit and Loss Account, and the "Minimum rent redeemable" in the Balance Sheet will appear at £700. In each subsequent year the entry of the minimum rent, the credit to the landlord, and the transfer of the royalty to profit and loss will be similar, and are therefore not repeated. The other entries are—

		£	£
1908.			
Dec. 31.	Royalties Account. Dr..	1000	
	To minimum rent		750
	„ minimum rent redeemable . .		250
	(Leaving asset of £450.)		

		£	£
1909.			
Dec. 31.	Royalties Account. Dr.	1050	
	To minimum rent		750
	„ minimum rent redeemable . .		300
	(Leaving asset of £150.)		
1910.			
Dec. 31.	Royalties Account. Dr. . . .	1000	
	To minimum rent		750
	„ minimum rent redeemable (closing the account)		150
	„ landlord (to whom the surplus of royalties in this and all future years must be paid) .		100

Wages.—The arrangement with the workmen will, in the case of the colliers and much of the underground labour, be piecework, and to save the labour involved in the calculations, the wages are generally made up for a fortnight at a time, the men being allowed to draw a certain amount on account at the alternate week-end. The amount to be paid is ascertained by a weigher on behalf of the owners, and a "check weighman" on behalf of the men, the latter receiving his weekly wage from the miners themselves, a column being provided in the Wage Book, by means of which his wages are deducted from the individual wages at the time of their payment in agreed proportions. For purposes of costing, the wages are analyzed under various headings, the three chief divisions being colliers (subdivided into cutting, timbering, deadwork, etc.), underground labour (subdivided into overmen, roadmen, trammers, doorboys, etc.), and above-ground labour (subdivided into storekeepers, blacksmiths, etc.).

The example on p. 380 is a simple form of Wages Book.

Sales.—The sales of a colliery are usually entered, in weights only until the month end, in a book sometimes called a "Ledger Journal," in which one page is kept for each of the principal customers, who are charged so much per ton loaded at the pit head. At the end of the month a statement is made out showing the various quantities and qualities purchased, and the monthly total of each quality charged out in money for the first time, together with the charge made by the railway company for carriage, and if the coal was sent in the colliery's waggon, an agreed charge per ton for waggon hire.

These will be press copied, and a summary is made in the

WAGES BOOK

No.	Name.	Work.	Quantity for piece-workers.	Time for others.	Rate.	Columns for analysis.													Total.	Deductions.									Total.			Balance to pay.		
						Getting.	Etc.	Etc.	Etc.	Etc.	Etc.	Etc.	Etc.	Etc.	Etc.	Etc.	Etc.	Etc.		Draw.			Check weigh-men.			Sundry.								
																				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.

Sales Book, which is in its turn posted to the Ledger. The Sales Book will contain columns for reference to the press copies and to the Ledger, total columns for weights and money, and analysis columns for coal, railway carriage, and waggon hire, the totals of these being posted to the credit of the respective accounts.

Hire Purchase of Waggons

The next point to consider is that of waggons obtained under the "hire-purchase system," and their treatment in the accounts. The agreements usually provide that the purchaser shall pay a fixed sum for the hiring of a waggon for an agreed period, at the end of which time he has the right to purchase it for a nominal sum, the waggon in the mean time remaining the property of the manufacturer.

It will be seen that the instalments paid by the purchaser will include a certain amount of interest, and that the balance of each instalment is really a payment on account of capital. These instalments must, therefore, be apportioned each year as between capital and interest, and the latter must, of course, be written off against the Profit and Loss Account. There will be a further charge against revenue in respect of depreciation, which as a matter of sound finance should be written off each year from the *cash value* of the waggons.

As waggons, when kept in good repair, have a long life, and those supplied by standard makers consist of interchangeable parts constantly being renewed, the waggons may remain good working plant even though not one scrap remains of the original. On the other hand, railway companies often withdraw waggons of an obsolete type, and also put a limit to the extent of repairs. This varying treatment makes the question of depreciation one on which no hard and fast rules can be laid down. The desirability of providing for depreciation may, however, be taken for granted; and therefore we say that the agreed rate should be written off the cash value and not from the balance of the waggon account. It must be noted that in a short period ownership is obtained of the waggons, and that the additional rate paid under this purchase method as compared with simple hiring would be forfeited on failure to keep up the agreed

payments; further, that after charging interest and depreciation against revenue there will soon be a considerable sum representing the cash payment value of the waggon.

To show how these items may be treated in the books let us take the following example: A. agrees with the Railway Waggon Company to acquire from them one of their £50 waggons on the hire-purchase system, paying £10 per annum for six years, and then having the right to purchase it for the sum of one shilling. The first instalment is payable on December 31, 1906, being just twelve months after he first obtains possession of it, and he covenants to keep the said waggon in full repair until all the payments under the agreement have been made. Interest is charged at the rate of five and a half per centum on the unpaid balance of capital.

On December 31 A. will receive from the Waggon Company a debit note for the sum of £10, which will be treated with the other invoices through the Purchase Analysis Book, by means of which the "Waggons on Hire-Purchase Account" will be debited and the Railway Waggon Company credited with that amount. As set out above, this figure will include interest for the year on the balance still unpaid of the cash price (£50), which therefore for the first year equals £2 15*s.*, and the remainder, viz. £7 5*s.*, goes towards the capital, which therefore leaves unpaid on January 1, 1907, capital £42 15*s.* Depreciation will then require to be dealt with, and has for the purpose of this example been charged at the rate of 12½ per cent. on the diminishing value, and therefore for the first year will amount to £6 5*s.*

The interest and depreciation each year will be credited to the Waggon Account and debited to Profit and Loss Account, and the balance of the former account will then appear on the Balance Sheet as an asset under some such heading as—

Waggon on Hire-Purchase Account. £1
(Subject to payment of balance of instalments £50 1*s.*)

For 1907 the annual debit note will come on December 31, and be treated as before. Interest will be charged on the balance of capital for the year (£42 15*s.*) and will equal £2 7*s.* for the year, leaving owing on January 1, 1908, £35 2*s.* on capital account. Depreciation for the year will be charged at

£5 9*s.* 4*d.*, being 12½ per cent. on the cash price £50, less £6 5*s.* written off for 1906.

In the Balance Sheet at December 31, 1907, this asset will therefore stand at £3 3*s.* 8*d.*

The student can work out each year's interest and depreciation for his own satisfaction until the purchase is completed, when the balance of the "Hire-Purchase Account" will be transferred to the ordinary Waggon Account, since it is then the absolute property of the hirer.

The following entries show in Journal form the full transactions for the first two years and the interest and depreciation figures for the whole period, together with the Ledger Account of the "Waggon on Hire-Purchase."

		£	s.	d.	£	s.	d.
1906.							
Dec. 31.	Waggon Hire-Purchase Account. Dr. .	10	0	0			
	To Railway Waggon Company, Ltd. .				10	0	0
	(Being first instalment of purchase of waggon under the hire agreement of Jan. 1, 1906.)						
,,	Interest Account. Dr.	2	15	0			
	To Waggon Hire-Purchase Account .				2	15	0
	(Being interest at 5½ per cent. per annum on cash price of waggon.)						
,,	Depreciation Account. Dr.	6	5	0			
	To Waggon Hire-Purchase Account .				6	5	0
	(Being depreciation for year at 12½ per cent. per annum on waggon under agreement of Jan. 1, 1906, costing £50 cash.)						
,,	Profit and Loss Account. Dr. . . .	9	0	0			
	To Interest Account				2	15	0
	,, Depreciation Account				6	5	0
	(For balance of the latter written off.)						

		£	s.	d.	£	s.	d.
1907.							
Dec. 31.	Waggon Hire-Purchase Account. Dr. .	10	0	0			
	To Railway Waggon Company, Ltd. .				10	0	0
	(Being second instalment of purchase of waggon under hire agreement of Jan. 1, 1906.)						
,,	Interest Account. Dr.	2	7	0			
	To Waggon Hire-Purchase Account .				2	7	0
	(Being interest at 5½ per cent. per annum on balance of capital still unpaid under above agreement, viz. £42 15*s.*)						

		£	s.	d.	£	s.	d.
1907 (*continued*).							
Dec. 31.	Depreciation Account. Dr.	5	9	4			
	To Waggon Hire-Purchase Account .				5	9	4
	(Being depreciation at 12½ per cent. per annum (diminishing value) on waggon under agreement of Jan. 1, 1906.)						
„	Profit and Loss Account. Dr. . . .	7	16	4			
	To Interest Account				2	7	0
	„ Depreciation Account				5	9	4
	(For balance of the latter accounts written off.)						

The Balance Sheet value of the waggon at date will be £3 3*s*. 8*d*., subject to the payment of further instalments equal to £40 1*s*.

SUMMARY OF FURTHER ENTRIES

	Unpaid balance of capital on January 1.			Interest for year.			Balance of cash value after depreciation on January 1.			Depreciation for year.			Value of waggons on hire-purchase account per balance sheet December 31.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Dec. 31, 1908	35	2	0	1	18	6	38	5	8	4	15	8	6	9	6
„ 1909	27	0	6	1	9	8	33	10	0	4	3	9	10	16	1
„ 1910	18	10	2	1	0	4	29	6	3	3	13	3	16	2	6
„ 1911	9	10	6	0	10	6	25	13	0	3	4	2	22	8	10

It is very essential for the proper working of a colliery that store accounts shall be carefully and accurately kept, and that they shall be periodically balanced and checked with the actual stock on hand; but as this presents no special features and the general subject of stores is dealt with in another chapter, it is not necessary to enlarge upon this here.

Nowadays no system of accounting for any trade is considered complete without some reference to Cost Accounts and cost sheets, and the managers of collieries were among the first to realize the usefulness of this branch of work and to prepare statistical returns frequently and periodically to show how much each ton of coal raised was costing, and how that cost was distributed. In collieries these statements are also used as a check on the payment of the wages, since, as previously stated, a very large portion of the wages is paid on the output of coal, and a schedule maintains a check on the opening stock and coal raised as per the wage sheets. Against this is

Dr. **WAGGON ON HIRE-PURCHASE ACCOUNT** **Cr.**

		£	s.	d.			£	s.	d.
1906. Dec. 31	To Railway Waggon Co., Ltd. . . .	10	0	0	1906. Dec. 31	By interest . . .	2	15	0
					„	„ depreciation . .	6	5	0
					„	„ balance . . .	1	0	0
		10	0	0			10	0	0
„	„ balance . . .	1	0	0					
1907. Dec. 31	„ Railway Waggon Co., Ltd.—Instalment	10	0	0	1907. Dec. 31	„ interest . . .	2	7	0
					„	„ depreciation . .	5	9	4
					„	„ balance . . .	3	3	8
		11	0	0			11	0	0
„	„ balance . . .	3	3	8					
1908. Dec. 31	„ Railway Waggon Co., Ltd.—Instalment	10	0	0	1908. Dec. 31	„ interest . . .	1	18	6
					„	„ depreciation . .	4	15	8
					„	„ balance . . .	6	9	6
		13	3	8			13	3	8
„	„ balance . . .	6	9	6					
1909. Dec. 31	„ Railway Waggon Co., Ltd.—Instalment	10	0	0	1909. Dec. 31	„ interest . .	1	9	8
					„	„ depreciation . .	4	3	9
					„	„ balance . . .	10	16	1
		16	9	6			16	9	6
„	„ balance . . .	10	16	1					
1910. Dec. 31	„ Railway Waggon Co., Ltd.—Instalment	10	0	0	1910. Dec. 31	„ interest . . .	1	0	4
					„	„ depreciation . .	3	13	3
					„	„ balance . . .	16	2	6
		20	16	1			20	16	1
„	„ balance . . .	16	2	6					
1911. Dec. 31	„ Railway Waggon Co., Ltd.—Instalment	10	0	0	1911. Dec. 31	„ interest . . .	0	10	6
	Purchase price .	0	1	0	„	„ depreciation . .	3	4	2
					„	„ Waggon Account, being balance transferred . . (Value of waggon acquired, less depreciation to date)	22	8	10
		26	8	6			26	3	6

set the amount of coal sold, for which a column is provided in the Sales Book, and a note made of the deficiency which will invariably exist, owing to an allowance usually made to the married men engaged in the colliery, and to the coal consumed by the concern itself. The percentage which this deficiency

bears to the output is carefully noted, and often a certain margin is fixed which is never exceeded without a full inquiry being made. Such maximum will vary from 4 to 7 per cent., according to the circumstances of each case.

Probably the best termination to this chapter will be a form of a Colliery Cost Account which we think is self-explanatory.

SUMMARY OF COST SHEET FOR THE FOUR WEEKS ENDING SEPTEMBER 30

THE BLANK COLLIERY COMPANY

	Tons.		Average per ton of net production.
Sales—coal and slack . . .	18,600	£6045 0*s*. 0*d*.	6*s*. 6*d*.
Coal stock—decrease . . .	200	£65 0*s*. 0*d*.	
Total credits . . .	18,400	£5980 0*s*. 0*d*.	

							Average per ton of net production.				Per cent. on sterling value of production.
	£	s.	d.	£	s.	d.	s.	d.	s.	d.	
Wages: colliers . . .	1562	0	0				1	8·37			26·12
„ underground .	830	0	0				0	10·83			13·88
„ surface . . .	740	0	0				0	9·65			12·38
				3132	0	0			3	4·85	
Timber used	420	0	0				0	5·47			7·03
Rails	24	0	0				0	0·31			0·40
Stores: ropes	30	0	0				0	0·39			0·50
„ oil	18	0	0				0	0·24			0·30
„ sundry . . .	17	0	0				0	0·22			0·29
				509	0	0			0	6·63	
Repairs and renewals exclusive of wages . .	110	0	0				0	1·43			1·84
Horse keep and stables .	137	0	0				0	1·79			2·30
				247	0	0			0	3·22	
Royalty — freehold and leasehold	515	0	0				0	6·72			8·60
Depreciation fund . . .	207	0	0				0	2·70			3·46
Other rents, rates, and taxes	410	0	0				0	5·35			6·86
				1132	0	0			1	2·77	
				5020	0	0					
Management expenses .	150	0	0				0	1·96			2·50
Salaries and travelling .	162	0	0				0	2·12			2·71
Office expenses . . .	70	0	0				0	0·92			1·16
„ rent and insurance .	80	0	0				0	1·04			1·34
Discounts and bad debts .	76	0	0				0	1·00			1·27
				538	0	0					
Apparent profit				422	0	0	0	5·49			7·06
									1	0·53	
				£5980	0	0			6	6	100·00

QUESTIONS AND EXERCISES

201. Discuss the question of depreciation in the case of a colliery.
202. Explain the meaning of minimum or dead rent.
203. How would a minimum rent in excess of royalties be treated in the accounts?
204. Discuss the treatment in the accounts of waggons obtained under the hire-purchase system.
205. Give an example of a colliery cost sheet.

CHAPTER XXVI

BUILDING SOCIETIES[1]

Permanent—Terminating Societies—Rights and Liabilities of Members—Mortgages—Annual Statement—Auditor's Report—Termination, Dissolution, and Winding up—Accounts—Cash Book, Ledgers, Final Accounts and Statement.

Classes.—Building societies are of two kinds: 1. Terminating; 2. Permanent. A terminating society is one which, by its rules, is to terminate at a fixed date, or when a result specified in its rules is attained.

The scheme of a terminating society is somewhat as follows:—

The society is constituted by several persons, each subscribing for a certain number of shares. Upon each of these shares a fixed sum is made payable so long as the society lasts, the object being to continue the society until the subscriptions, with the interest that has arisen from their investment, shall have produced such an amount per share as may have been fixed by the rules. As soon as there are sufficient funds in hand it may be noted that advances are made to such members as may desire them, in anticipation of the shares which would be payable to them on the termination of the society; the sum advanced being the amount of the member's share or shares, less a discount for such member's portion of the working expenses. The member who receives the advance executes a mortgage of real or leasehold estate to the society for securing the due payment by him of his subscriptions to the funds of the society. The Starr-Bowkett and Bowkett Societies are both varieties of this class.

[1] For a fuller treatment we would refer students to the standard work by Wurtzburg on building societies, to which, by the courtesy of Messrs. Stevens and Sons, the publishers, we are indebted for the introductory notes of this chapter.

It frequently happens that the winner of a ballot does not at the time desire to exercise his rights, and he has the power to offer up his privilege by auction, and sell to the highest bidder, thereby realizing a profit, a portion of which profit the society receives, as stated in its rules.

A permanent society, on the other hand, is a society which has not by its rules any fixed date or specified result at which it shall terminate.

Permanent societies are constructed by the agreement of several persons to take shares of a certain fixed value, on which payment has to be made, either in a lump sum or by instalments, until the full amounts of the shares have been paid up; and the sums so paid generally carry interest. Advances are made to members from time to time, as the funds will permit, on the security of lands or buildings, the money advanced being at a higher rate of interest than that received by investing members or depositors, and usually made payable by equal instalments, composed of principal and interest and spread over a fixed period.

Building societies are classed under the heads of *incorporated and unincorporated societies.*

The chief difference between an unincorporated and an incorporated society is that in the case of the former loans to the society were really made to the appointed trustees of the society, for which loans the said trustees gave promissory notes, making themselves personally liable for the repayment; whereas in incorporated societies the loans are made to the society itself, the society giving a certificate for the amounts under its seal, giving the lender a claim on its funds.

Also in the case of mortgages to an unincorporated society, they are made to the trustees of the society; but in incorporated societies they are made to the society as a corporate body under its seal. Unincorporated societies are dying out.

The Rights and Liabilities of Members.—The members of a building society are of two classes—those who simply pay their contributions to the society, generally receiving interest in some shape on the amount so paid, and those who borrow money from the society on mortgage. The former are called unadvanced or investing members, and the latter advanced or borrowing members, and their rights and liabilities depend not

only on the rules of the society, but also on the contract of mortgage into which they have entered.

For the purpose of raising the funds necessary for carrying on its business, an incorporated society is empowered to issue shares of one or more denominations, either paid up in full, or to be paid by periodical or other subscriptions, and with or without accumulating interest, and to repay such funds when no longer required for its purposes; and it may also issue preference shares. But in the case of every society established, or substituting a new set of rules for its existing rules, since August 25, 1894, the following particulars must be set forth in the rules of the society: the manner in which the stock or funds is or are to be raised; the terms upon which unadvanced subscription shares are to be issued; the manner in which the contributions are to be paid to the society, and withdrawn by the members, with tables where applicable, showing the amount due by the society for principal and interest separately; the terms upon which paid-up shares, if any, are to be issued and withdrawn, with tables, where applicable, showing the amount due by the society for principal and interest separately; whether preferential are to be issued, and if so, within what limits; the manner in which advances are to be made and repaid; the deductions, if any, for premiums, and the conditions upon which a borrower can redeem the amount due from him before the expiration of the period for which the advance was made, with tables, where applicable, showing the amount due from the borrower after each stipulated payment; the manner in which losses are to be ascertained and provided for, and the manner in which membership is to cease. It is obvious, therefore, that the society may raise its funds in a number of different ways, and the rights of the members will vary accordingly.

There is no fixed capital as in the case of a company under the Companies Acts, but shares are issued from time to time as persons are found ready to take them; and, unless so provided by the rules, there is no limit to the number that may be issued. In the case of terminating societies, however, it is unusual for any one to join after the first few months of the society's existence, owing to the number of back payments that will be required in order to place him on an equality with those members who joined at the commencement of the society.

Mortgages to Building Societies.—The principal business of every building society, whether terminating or permanent, is to make advances to its members out of the funds on the security of real or leasehold estate. The form of the mortgage given to secure such an advance depends mainly upon the constitution of the society. It is, in the case of a terminating society, to secure not the repayment of the money advanced with interest, but the due payment by the member of his subscriptions and other contributions to the funds of the society until the full amount of the shares of the unadvanced or investing members is realized according to the rules; and as an advanced member receives by anticipation what the investing members will only receive on the termination of the society, he pays from the time he receives his advance an increased or additional subscription which is called redemption money, but is in reality interest. The mortgage must, therefore, be framed in such a way as to secure the due payment by the advanced member of all his contributions until the termination of the society.

In permanent societies, on the other hand, a mortgage for an advance to a member is usually in the nature of a security for repayment of the advance by equal instalments, composed of principal and interest combined. If the society is incorporated the mortgage is made to the society itself, under its seal; if it is unincorporated the security must be taken in the names of trustees, and it will vest in the society's trustees for the time being without any conveyance or transfer.

The right to receive an advance from an incorporated society cannot now be made to depend on the result of a ballot or any chance or lot, except in the case of societies established before August 25, 1894.

The security for an advance must always consist of real or leasehold estate, whether the society is incorporated or not; an advance on the security of the members' shares in the society is illegal, and directors who make such an advance will be liable for any loss that may be sustained by the society in consequence; and though an advance may be collaterally secured by the personal covenant of the member, or by a charge on property of an unauthorized description, *e.g.* pure personal estate, the validity of the transaction must be estimated as if no such ingredient entered into it.

Speaking generally, and subject to such variations as necessarily result from the special nature of these securities, the ordinary law of mortgage applies in the case of a mortgage to a building society by one of its members. At the same time the position of an advanced member of a building society is not quite the same as that of an ordinary mortgagor, and his rights are affected to the same extent, at least, by the contract of membership as well as by the contract of mortgage; and there are, moreover, certain statutory provisions—such, for instance, as the right to reconvey by endorsed receipt instead of by deed—which, of course, have no application to the case of an ordinary mortgage.

An advanced member of a building society has the right to redeem his security, the terms of redemption depending on the rules of the society and the provisions of the mortgage deed; but questions of difficulty have sometimes arisen on this point, owing to the want of care shown in framing the rules.

In the case of a permanent society it is easy to ascertain how much must be paid by an advanced member who wishes to redeem his security; but in the case of a terminating society, owing to the impossibility of saying exactly how long the society will last, the calculation is one of some difficulty, and in fact can scarcely be made with perfect accuracy.

A member of a building society, who has executed a mortgage to the society in the usual form to secure an advance, is entitled to deduct income tax on so much of each periodical instalment as is in fact payment of interest; but not on such portion as is payment of principal.

The right to deduct income tax from time to time, as and when mortgage interest is paid, is absolute; and a mortgagor so deducting income tax is acquitted and discharged by statute of so much money as the deduction shall amount to as if the amount had actually been paid to a person to whom the interest was due and payable. The tax should be deducted from each instalment before it is paid, and if this is not done the amount cannot afterwards be deducted from the future instalments. This is the law on the subject, and though the privilege is rarely exercised by mortgagors, refusal to allow this deduction carries a penalty of £50.

A society under the Building Societies Acts cannot advance

money on the security of any freehold, copyhold, or leasehold estate which is subject to a prior mortgage, unless the prior mortgagee is in favour of the society making the advance, and agrees to become second mortgagee, the society having the prior claim.

In a permanent society the total amount received on deposit or loan, and not repaid by the society, shall not at any time exceed two-thirds of the amount for the time being secured to the society by mortgages from its members. An overdraft at a bank would be considered borrowed money.

In a terminating society the total amount so received and not repaid may either be a sum not exceeding such two-thirds, or a sum not exceeding twelve months' subscriptions on the shares for the time being in force.

Annual Statement.—The secretary or other officer of every society must, once in every year at least, prepare an account of all the receipts and expenditure of the society since the preceding statement, and a general statement of its funds and effects, liabilities and assets, showing the amounts due to the holders of the various classes of shares respectively, to depositors and creditors for loans, and also the balance due and outstanding on the mortgage securities (not including prospective interest), and the amount invested in the funds or other securities; and every such account and statement shall be attested by an auditor who publicly practises as an accountant, to whom the mortgage deeds and other securities belonging to the society shall be produced, and such account and statement shall be countersigned by the secretary or other officer; and every member, depositor, and creditor for loans shall be entitled to receive from the society a copy of such account and statement, and a copy must be sent to the Registrar within fourteen days after the annual or other general meeting at which it is presented, and another copy is to be suspended in a conspicuous place in every office of the society.

Auditor's Report.—Every auditor, in attesting any such account or statement, must either certify that it is correct, duly vouched, and in accordance with law, or specially report to the society in what respect he finds it incorrect, unvouched, or not in accordance with law, and shall also certify that he has at that audit actually inspected the mortgage deeds and other

securities belonging to the society, and shall state the number of properties with respect to which deeds have been produced to and actually inspected by him.

Termination, Dissolution, and Winding up.—There appear to be six different ways in which a building society may come to an end: (1) termination; (2) dissolution, in manner prescribed by the rules; (3) dissolution by an instrument of dissolution; (4) dissolution by award of the Registrar; (5) dissolution under sect. 26 of the Act of Geo. 4, c. 56, assuming this section to be applicable to the case of a building society; (6) winding up under the Companies Acts. Of these the first and last apply to both incorporated and unincorporated societies; the second, third, and fourth apply only to incorporated societies; the fifth applies, if at all, only to incorporated societies.

Any incorporated society may also unite with or transfer its engagements to another incorporated society, and come to an end in this way.

The manner in which any incorporated society, whether terminating or permanent, is to be terminated or dissolved must be set forth in its rules.

The object of a terminating society is, as we have seen, to accumulate by the subscriptions of its members and the interest derived from their investment, an amount sufficient to give a stipulated sum to each member, and then to divide the whole amongst them. The length of time required to accomplish this result varies according to the rate of subscription and the degree of success or non-success that attends the societies' operations; but twelve or fourteen years may be taken as about the average period. When the agreed amount has been realized, the accounts of the different members, some of whom will have received their shares in advance, are made up; the fund is divided amongst the members according to their several rights and interests, and the society is at an end.

The rules may of course provide that the society shall terminate on a given date, and the assets be then divided and the society dissolved. But this is not usual; it is much more common for the rules to provide for the society continuing its operations until a certain amount per share has been realized.

In the case of an incorporated society, the Act expressly provides that the society may terminate "upon the happening of

any event declared by its rules to be the termination of the society;" and it defines a terminating society as one which, by its rules, is to terminate at a fixed date, or when a result specified in its rules is attained.

The Act of 1874 provides that an incorporated society may be dissolved in manner prescribed by its rules, and whatever course they point out for effecting the dissolution must be strictly pursued.

The provisions of the Building Societies Acts will, during the dissolution, continue to apply in the case of the society as if the liquidators or other persons conducting the dissolution were the board of directors or committee of management of the society.

The society, if incorporated, may be dissolved by instrument of dissolution with the consent of three-fourths of the members, holding not less than two-thirds of the number of shares in the society, testified by their signatures to the instrument. The instrument of dissolution must set forth—

(*a*) The liabilities and assets of the society in detail;

(*b*) The number of members and the amount standing to their credit in the books of the society;

(*c*) The claims of depositors and other creditors, and the provisions to be made for their payment;

(*d*) The intended appropriation or division of the funds and property of the society;

(*e*) The names of one or more persons to be appointed trustees for the special purpose, and their remuneration.

It must be registered in the manner provided for the registration of rules, and will be binding on all the members of the society.

The remaining method of putting an end to a building society is by winding up under the Companies Acts.

When a society under the Building Societies Acts is being dissolved or wound up, a member to whom an advance has been made under any mortgage or other security, or under the rules of the society, shall not be liable to pay the amount payable under the mortgage or other security or rules, except at the time and subject to the conditions therein expressed.

A building society, though it may be wound up under the Companies Acts, is neither a joint-stock company nor a

common-law partnership. It is an association of a special kind, formed and regulated under particular Acts of Parliament for special purposes, and the rights and liabilities of the members are to be determined by the particular contract into which they have entered, and which is to be found in the rules of the society.

Unadvanced or investing members are only liable as between the different classes of members themselves to contribute to the assets of the society, to the extent (if any) to which the payments due in respect of their shares are in arrear at the commencement of the winding up. If, however, the society is unincorporated they will be liable to ordinary creditors without limitation of liability, and to loan creditors to the extent of the amounts payable by the unadvanced members under the rules, and they may in some cases be under special liability to preference shareholders. In the absence of special contract, advanced members are entitled to redeem, and so put an end to their connection with the society, by paying up the balances remaining owing on their securities, and are not bound to remain members for the purpose of bearing a share of any losses that may have been sustained by the society. If it is unincorporated, and there are outside creditors, the liability is more extensive.

Members who have given notices to withdraw, which have expired before the commencement of the winding up, and members whose shares are realized or completed at the commencement of the winding up, will, if the rules so provide, be entitled to be paid out of the assets after satisfaction of the outside creditors, and in priority to members who have not given such notice or whose shares are not realized.

After payment of debts and making due provision for priorities of withdrawn and realized shares, the surplus assets are divisible among the unadvanced members according to the interests which existed at the commencement of the winding up.

The Registrar having powers of registering matters in connection with building societies is the chief registrar of friendly societies, and his assistants, any of whom can act. Their headquarters are Central Office, Abingdon St., Westminster.

Accounts and Statutory Statements

The following specimens of accounts and the somewhat complicated statements, which are necessary to be kept and returned by building societies, will require the careful study of the students interested in this branch of accounting. The accounts and forms, with the help of the notes, are self-explanatory, and therefore need no further description.

BUILDING SOCIETIES' BOOKS.

Dr. CASH

Date.		Name.	Nature of sundries.	Ledger folio.	No. of shares paid off.	Sundries.			Deductions on deposits withdrawn.		
						£	s.	d.	£	s.	d.
1901 Jan.	1	To balance in bank . .									
		" bank . . .	Bank interest .	G.L.		21	18	11			
		" sundry persons (detailed during year) . .							5	1	4
		" InvestmentA/c	Interest . . .	G.L.		600	0	0			
to		" sundry persons	Rules, fines, etc.	G.L.		20	10	3			
		" " "	Income from properties in possession, viz. .			304	1	1			
		" " "	Interest received from borrowers	·		5618	4	0			
Dec.	31	" " "	Insurance premiums . . .	G.L.		225	0	6			
					£	6789	14	9	5	1	4
						(a)			(b)		

(a) The items in the sundries column which appear in General Ledger (credit side), the columns of which are added or to Nominal Accounts at the end of the financial year.
(b) The totals of these columns are carried to the Profit
(c) From Subscription Books.

CONTRA

Date.		Name.	Nature of sundries.	Ledger folio.	Number of shares advanced.	Sundries.			Shares advanced.		
						£	s.	d.	£	s.	d.
1901 Jan.	1	By bank . . .	Commission . .	G.L.		30	5	6			
		" sundry persons	Management expenses . . .	G.L.		530	18	4			
		" " "	Rent, rates, and taxes . . .	G.L.		287	4	4			
		" " "	Income tax . .	G.L.		91	5	8			
to		" " "	Subscriptions to Building Societies' Association	G.L.		2	2	0			
		" Blank Insurance Co. . .	Insurances . .	G.L.		225	0	6			
		" sundry persons (detailed during year) . .							35,794	4	0
Dec.	31	" balance in bank									
					£	1166	16	4	35,794	4	0
						(a)					

(a) As above.

Deductions on advances.			Preference shares received.			Deposits received.			Advanced shares paid off.			Subscriptions.			Total.		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
															3,829	16	3
															21	18	11
590	15	0	13,400	0	0				35,348	5	1	12,241	19	10	61,586	1	3
															600	0	0
															20	10	3
															804	1	1
															5,618	4	0
															225	0	6
590	15	0	13,400	0	0				35,348	5	1	12,241	19	10	71,705	12	3
(b)			(c)			(c)			(c)			(c)					

detail throughout the year, are posted to an analytical and the totals posted direct to the Profit and Loss Account,

and Loss Account.

Cr.

Investment shares withdrawn.			Interest on investment shares.			Preference shares withdrawn.			Interest on preference shares.			Deposits withdrawn.			Interest on deposits.			Total.		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
																		30	5	6
																		580	18	4
																		287	4	4
																		91	5	8
																		2	2	0
																		225	0	6
15,463	8	9	3807	0	11	4130	0	0	969	17	0	5215	0	0	1392	12	5	66,772	3	1
																		3,766	12	10
15,463	8	9	3807	0	11	4130	0	0	969	17	0	5215	0	0	1392	12	5	71,705	12	3

ADVANCED

Dr. No. in Society.

Date.			Shares.	Folio.	Grant. £	s.	d.	Interest. £	s.	d.	Total. £	s.	d.
1901 Jan.	1	To balances . . .			118,952	1	3	4,886	10	9			
to		„ cash (further advances during year) . . .			35,794	4	0						
Dec.	31	„ interest on advances . . . (Detailed in Interest Book No. 1).		Int. book. No. 1				5,618	4	0			
					154,746	5	3	10,504	14	9			
1902 Jan.	1	To balances . . .			119,093	19	1	4,886	10	9			

INVESTMENT

Dr. No. in Society.

Date.			Folio.	Interest. £	s.	d.	Subscriptions. £	s.	d.
1901 Jan.	1	To cash		3,807	0	11	15,463	8	9
to Dec.	31	„ balances down		6,490	7	5	57,628	1	5
				10,297	8	4	73,091	10	2

PREFERENCE SHARES

Dr. No. in Society.

Date.			Folio.	Interest. £	s.	d.	Subscriptions. £	s.	d.
1901 Jan.	1	To cash		969	17	0	4,130	0	0
to Dec.	31	„ balances down. . . .		594	5	11	35,150	0	0
				1,564	2	11	39,280	0	0

MEMBERS LEDGER

Cr.

Date.			Shares.	Folio.	Fines.			Share of profit.			Subscriptions.			Interest.			Total.		
					£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
1901 Jan.	1	By cash. . . .									35,348	5	1						
	1	„ „ (from properties in possession)									304	1	1						
to		„ cash												5,618	4	0			
Dec.	31	„ balances down .									119,093	19	1	4,886	10	9			
											154,746	5	3	10,504	14	9			

MEMBERS LEDGER

Cr.

Date.			Folio.	Interest.			Subscriptions.		
				£	s.	d.	£	s.	d.
1901 Jan.	1	By balances		7,805	1	4	60,849	10	4
to		„ cash.					12,241	19	10
Dec.	31	„ interest (detailed in Interest Book No. 2) . .		2,492	7	0			
				10,297	8	4	73,091	10	2
1902 Jan.	1	By balances		6,490	7	5	57,628	1	5

MEMBERS LEDGER

Cr.

Date.			Folio.	Interest.			Subscriptions.		
				£	s.	d.	£	s.	d.
1901 Jan.	1	By balances		439	3	4	35,880	0	0
to		„ cash.					13,400	0	0
Dec.	31	„ interest (detailed in Interest Book No. 3) . .		1,124	19	7			
				1,564	2	11	39,280	0	0
1902 Jan.	1	By balances		594	5	11	35,150	0	0

DEPOSIT LEDGER

Dr. Date.		Fo.	Interest. £	s.	d.	Principal. £	s.	d.	Cr. Date.		Fo.	Interest. £	s.	d.	Principal. £	s.	d.
1901 Jan. 1 to Dec. 31	To cash . . .		1392	12	5	5,215	0	0	1901 Jan. 1 to Dec. 31	By balances . .		697	12	2	39,662	18	11
	,, balances down		607	1	10	34,447	18	11		,, interest (detailed in Interest Book, No. 4) . .		1302	2	1			
			1999	14	3	39,662	18	11				1999	14	3	39,662	18	11
									1902 Jan. 1	,, balances down		607	1	10	34,447	18	11

NOMINAL LEDGER

1.—Interest on Advanced Members' Shares

Dr. Date.		Fo.	£	s.	d.	Cr. Date.		Fo.	£	s.	d.
1901 Dec. 31	To transfer to Profit and Loss Account . . .		5618	4	0	1901 Jan. 1 to Dec. 31	By sundry persons . . .	Interest Book, No. 1	5618	4	0

Dr. **2.—Interest on Investment Shares** Cr.

Date.		Fo.	£	s.	d.	Date.		Fo.	£	s.	d.
1901 Jan. 1 to Dec. 31	To sundry persons . . .	Interest Book, No. 2	2492	7	0	1901 Dec. 31	By transfer to Profit and Loss Account		2492	7	0

Dr. **3.—Interest on Preference Shares** Cr.

Date.		Fo.	£	s.	d.	Date.		Fo.	£	s.	d.
1901 Jan. 1 to Dec. 31	To sundry persons . . .	Interest Book, No. 3	1124	19	7	1901 Dec. 31	By transfer to Profit and Loss Account		1124	19	7

Dr. **4.—Interest on Deposits** Cr.

Date.		Fo.	£	s.	d.	Date.		Fo.	£	s.	d.
1901 Jan. 1 to Dec. 31	To sundry persons . . .	Interest Book, No. 4	1302	2	1	1901 Dec. 31	By transfer to Profit and Loss Account		1302	2	1

Dr. **5.—Office Furniture, Safes, and Rules** Cr.

Date.		Fo.	£	s.	d.	Date.		Fo.	£	s.	d.
1901 Jan. 1	To balance		60	0	0	1901 Jan. 1 to Dec. 31	By Profit and Loss Account (rules)			7	0
							„ balance down . . .		59	13	0
			60	0	0				60	0	0
1902 Jan. 1	„ balance		59	13	0						

Dr. **6.—Undivided Profit** Cr.

Date.		Fo.	£	s.	d.	Date.		Fo.	£	s.	d.
1901 Dec. 31	To balance down . . .		7889	0	2	1901 Jan. 1 to Dec. 31	By balance		6894	2	2
							„ Profit and Loss Account		994	18	0
			7889	0	2				7889	0	2
						1902 Jan. 1	„ balance down . . .		7889	0	2

Dr. **Freehold Property** Cr.

Date.		Fo.	Interest. £	s.	d.	Principal. £	s.	d.	Date.		Fo.	Interest. £	s.	d.	Principal. £	s.	d.
1901 Jan. 1 to Dec. 31	To balance . .					15,000	0	0	1901 Dec. 31	By cash . . .		600	0	0			
	„ P. and L. A/c		600	0	0				„	„ balance down.					15,000	0	0
			600	0	0	15,000	0	0				600	0	0	15,000	0	0
1902 Jan. 1	„ balance down					15,000	0	0									

PROFIT AND LOSS ACCOUNT

Year ending December 31, 1901

Dr.		£	s.	d.	Cr.		£	s.	d.
To bank commission	G.L.	80	5	6	By insurances	G.L.	225	0	6
„ insurances	G.L.	225	0	6	„ deductions on advances	C.B.	590	15	0
„ management expenses	G.L.	530	18	4	„ bank interest	G.L.	21	18	11
„ rent, rates, and taxes	G.L.	287	4	4	„ rules, fines, etc.	G.L.	20	10	3
„ subscription to Building Societies Association	G.L.	2	2	0	„ interest from borrowers	N.L. 1	5618	4	0
„ interest on deposits	N.L. 4	1302	2	1	„ deductions on deposits withdrawn	C.B.	5	1	4
„ „ investment shares	N.L. 2	2492	7	0	„ interest on investments	G.L.	600	0	0
„ „ preference „	N.L. 3	1124	19	7					
„ rules	N.L. 5		7	0					
„ income tax	G.L.	91	5	8					
„ profit carried to Undivided Profit Account	N.L. 6	994	18	0					
		£7081	10	0			£7081	10	0

The following books are in use in addition to the ledgers shown in the detailed accounts :—

1. Office Counter Book, giving details of money paid into the society during the month.
2. Subscription Books. These sums are posted individually from the Counter Book, to the various Subscription Books (Deposits, Preference Shares, Investment Shares, and Advances) (specimen as under).

Prog. No.	Shares.	Name.	Ledger folio.	January.			11 months follow.
				£	s.	d.	
					*		

The separate amounts are posted to the credit of the members.

* These columns are totalled and posted to Dr. of Cash Account monthly.

3. General Ledger or Analysis Book.
4. Insurance Premium Book.
5. Petty Cash Book.
6. Rent Ledger.
7. Invoice Guard Book.
8. Interest on Advances (No. 1).
9. „ „ Investments (No. 2).
10. „ „ Preference Shares (No. 3).
11. „ „ Deposits (No. 4).

Form of Annual Account and Statement to be made by a society under the Building Societies Acts prescribed for general use by the Chief Registrar of Friendly Societies, with the approval of the Secretary of State.

Statement of Accounts of the Building Society (incorporated 1 , and having its registered chief office or place of meeting at , in the County of) for its th year, ending the day of 19 .

The number of members of the society is .

Dr. **LIABILITIES AND ASSETS**

	Principal £	s.	d.	Interest £	s.	d.	£	s.	d.
To liabilities to holders of shares, viz.—									
Investment shares . . .	57,628	1	5	6,490	7	5			
Preferential shares . . .	35,150	0	0	594	5	11			
Total . .	92,778	1	5	7,084	13	4	99,862	14	9
To liabilities to depositors and other creditors, viz.—									
For deposits payable upon various times of notice, viz.—	34,447	18	11	607	1	10	35,055	0	9
To undivided profit (including reserve funds, but not including prospective interest), viz.							7,889	0	2
£							142,806	15	8

ACCOUNT (Stock Account) Cr.

							£	s.	d.
By balance due or outstanding on mortgage securities, not including prospective interest, viz.—									
	Principal.			Interest accrued (not prospective).					
	£	s.	d.	£	s.	d.			
Mortgages from members where the repayments are not upwards of twelve months in arrears and the property has not been upwards of twelve months in possession of the society—									
On 68 mortgages where the debt does not exceed £500 .	18,098	7	8	660	0	5			
On 37 mortgages where the debt exceeds £500 and does not exceed £1000. . . .	26,057	18	1	1,122	11	2			
On 34 mortgages where the debt exceeds £1000 and does not exceed £3000. . . .	48,537	18	2	1,896	7	8			
On 4 mortgages where the debt exceeds £3000 and does not exceed £5000. . . .	14,792	12	2	669	12	6			
On 2 mortgages where the debt exceeds £5000 as shown by Part I. of the schedule .	10,390	10	4	463	12	0			
Total of mortgages available under sect. 14 of the Act of 1894	117,877	6	5	4,812	3	9			
On 1 mortgage on property of which the society has been upwards of twelve months in possession, as shown by Part II. of the Schedule . . .	1,216	12	8	74	7	0			
On — mortgages where the repayments are upwards of twelve months in arrear, and the property has not been upwards of twelve months in possession of the society as shown by Part III. of the Schedule		*Nil*			*Nil*				
Total number of properties mortgaged to the society—146.									
Total . . .	119,093	19	1	4,886	10	9	123,980	9	10
By other assets—									
Amount invested in the Funds					*Nil*				
Amount invested in freehold property at 4 %.				15,000	0	0			
Deed and book safes				20	0	0			
Office furniture				30	0	0			
Copies of rules				9	13	0			
Cash in bank				3,766	12	10	18,826	5	10
						£	142,806	15	8

STATEMENT SHOWING THE OPERATIONS OF THE YEAR

Balances at beginning of year as shown by last annual statement.	£	s.	d.	Additions during the year. Particulars.	Amount £	s.	d.	Diminutions during the year. Particulars.	Amount £	s.	d.	Balances at end of year as shown by Liabilities and Assets Account.	£	s.	d.
Due to shareholders . .	94,973	15	0	Subscriptions of shareholders, C.B.	12,241	19	10	Withdrawals of shareholders, C.B.	15,463	8	9	Due to shareholders . .	99,862	14	9
				Interest added, P. and L. . .	2,492	7	0	Interest paid, C.B.	3,807	0	11				
				Pref. shares, C.B. .	13,400	0	0	Pref. shares, C.B. .	4,130	0	0				
				Interest on " " P. and L. . .	1,124	19	7	Interest on " "	969	17	0				
				New deposits . .		—		Deposits withdrawn, C.B. . .	5,215	0	0				
Due to depositors and other creditors . .	40,360	11	1	Interest added on deposits, P. and L.	1,302	2	1	Interest paid . .	1,392	12	5	Due to depositors and other creditors . .	35,055	0	9
				Other additions, viz.—				Other diminutions, viz.—							
				Interest on mortgages, P. and L.	5,618	4	0	Bank commission, P. and L. . . .	30	5	6				
				Interest on investments, P. and L.	600	0	0	Management expenses, P. and L.	530	18	4				
				Deductions on advances, P. and L.	590	15	0	Rent, rates, and taxes, P. and L. .	287	4	4				
				Bank interest, P. and L. . . .	21	18	11	Income tax, P. and L.	91	5	8				
				Rules, fines, etc., P. and L. . .	20	10	3	Subscription to Building Societies Association, P. and L. . . .	2	2	0				
				Deductions on investment shares and deposits, P. and L. . . .	5	1	4	Rules, P. and L. .		7	0				
								Interest on investments, P. and L. .	2,492	7	0				
Undivided profit not including prospective interest . . .	6,894	2	2					Interest on pref. shares, P. and L.	1,124	19	7	Undivided profit not including prospective interest . . .	7,889	0	2
								Interest on deposits, P. and L. . . .	1,302	2	1				
	142,228	8	8		37,417	18	0		36,839	10	7		142,806	15	8

Total . . £179,646 6s. 8d. — Total . . £179,646 6s. 8d.

Note.—Items marked C.B. are taken from Cash Book. Items marked P. and L. are taken from Profit and Loss Account.

Balances at beginning of year as shown by last annual statement.	£	s.	d.	Additions during the year. Particulars.	Amount. £	s.	d.	Diminutions during the year. Particulars.	Amount. £	s.	d.	Balances at end of year as shown by Liabilities and Assets Account.	£	s.	d.
				Advanced on mortgage, C.B. . .	35,794	4	0	Repayment of advances, C.B. . .	35,348	5	1				
Due on mortgage securities, not including prospective interest . . .	123,838	12	0	Interest due from borrowers, P. and L. . . .	5,618	4	0	Interest received from borrowers, C.B.	5,618	4	0	Due on mortgage securities not including prospective interest . . .	123,980	9	10
								Income from properties in possession, C.B. . .	304	1	1				
				Other additions, viz.—				Other diminutions, viz.—							
Other assets . .	18,389	16	3	Bank Account, C.B.	436	16	7	Rules, P. and L. .		7	0	Other assets .	18,826	5	10
	142,228	8	3		41,849	4	7		41,270	17	2		142,806	15	8

Total . . £184,077 12*s*. 10*d*.

Total . . £184,077 12*s*. 10*d*.

Note.—Items marked C.B. are taken from Cash Book.
" " P. and L. " " Profit and Loss Account.

QUESTIONS AND EXERCISES

206. Distinguish between terminating and permanent building societies.

207. State the main difference between an incorporated and an unincorporated society.

208. Discuss the rights and liabilities of investing members and borrowing members.

209. What is the position of a society in regard to advancing on second mortgages?

210. What particulars are to be supplied in the annual statement?

211. Name the various ways in which a building society may come to an end.

212. Name the books suitable for a building society's transactions.

213. Describe the final accounts and statements prepared to show the society's operations for the year.

CHAPTER XXVII

EXECUTORSHIP ACCOUNTS

Estate Duty Account—Estate Duty—Accounts—Legacies—Distribution—Example of Accounts—Definitions.

The great importance of Executorship Accounts arises from the fact that in these cases the legal owner of the property is very seldom the beneficial owner, and therefore being in the position of a trustee must always be ready to account to those entitled to the property, and if he fails to do so after a reasonable request, may be liable personally for the costs of preparing such accounts and the action in Chancery which may have been taken to obtain them. Another point to bear in mind is, that very frequently there are various interests given to different people under the will, and these interests require to be carefully watched to see that one party does not benefit at the expense of the others. To ensure this a certain knowledge of executorship law is necessary. A familiar example of these conflicting interests is provided by the respective rights of a life tenant (who is entitled to the income only from a certain property for life) and the remainderman, who, after the death of the life tenant, is entitled to the total property as it stands.

An executor is the person appointed by the will to carry out the trusts and provisions of such will. His authority therefore begins at death, but when he is endeavouring to collect the assets, he will find it necessary to have his title endorsed by the court, which is known as "proving the will;" this, indeed, is legally imposed on him, in order that the State may receive the duties to which it is by law entitled on all property passing at the death.

With regard to accounts, then, the first duty of the executor is to prepare his "Estate Duty Account" and submit it to the

Probate Division of the High Court. This is a document for which an official form is provided, setting out the full amount of property passing at death on which duty is payable. The form itself must be carefully studied, and should be filled according to the following directions.

Government stocks, and stocks and shares of public companies which are quoted "officially" on the Stock Exchange, are valued at the closing price of the day of death. Usually two prices are given, 100–102, in which case the price for our present purpose is the lower one, plus one-quarter of the difference, that is, 100½.

Other stocks and shares must be valued, usually by the secretary of the company in which the shares are held, and are entered at that price.

Interest and dividends declared or accrued due on such investments are valued at the actual amount payable. In connection with this, it should be noted that when securities are sold on the Stock Exchange, unless quoted "ex div.," the rights to any dividend or interest accruing pass to the purchaser, so for this purpose no apportionment is made of any interest accruing only as it is included in the price quoted above.

Other assets are accompanied by valuations when the actual figures cannot be entered, and any interest accruing on money lent must also be included as accruing from day to day.

When we come to deal with the business belonging to the deceased; if he were a partner in a firm, the Balance Sheet is produced, and his share therein is entered in one figure, whilst if he is a sole trader, his assets are split up under the various headings of book debts, stock-in-trade, goodwill, etc.

Assets in the colonies and in foreign countries, and any *donationes mortis causa* must also be included, and, in fact, all property real and personal passing at the death.

In subsequent schedules come the deductions, which consist of creditors and funeral expenses.

A summary is then made of all property real and personal, together with the deductions allowed, in order to ascertain the total capital value of the estate upon which duty must be paid.

The estate duty itself is a graduated stamp duty, varying with the value of the estate, and payable at the following rates:—

Estates under £100 . . . . *nil.*

Estates exceeding	£100,	but	not exceeding	£500,	1	per cent.
,,	500,	,,	,,	1000,	2	,,
,,	1000,	,,	,,	10,000,	3	,,
,,	10,000,	,,	,,	25,000,	4	,,
,,	25,000,	,,	,,	50,000,	4½	,,
,,	50,000,	,,	,,	75,000,	5	,,
,,	75,000,	,,	,,	100,000,	5½	,,
,,	100,000,	,,	,,	150,000,	6	,,
,,	150,000,	,,	,,	250,000,	7	,,
,,	250,000,	,,	,,	500,000,	8	,,
,,	500,000,	,,	,,	750,000,	9	,,
,,	750,000,	,,	,,	1,000,000,	10	,,

,, 1,000,000 are at the rate of 10 per cent. on the first 1,000,000, 11 per cent. on the next 500,000, 12 per cent. on the next 500,000, and so on, with a limit of 15 per cent.

In addition to this, the following concessions are made to small estates. Where the gross value of an estate does not exceed £300 or £500, a fixed charge of 30*s.* or 50*s.* respectively will clear the estate of all duties of every description, and in the case of estates where the net value of an estate (excluding property settled otherwise than by the deceased's will) does not exceed £1000, such other property is not aggregated with the deceased's estate for the purpose of ascertaining the rate of duty.

This estate duty is payable by the estate, and is chargeable on real and personal estate proportionately, together with interest, as far as duty on personal property, at 3 per cent. from date of death until the payment of the duty. This account must be presented within six months of the death, but in the case of real estate it may be paid by eight yearly or sixteen half-yearly instalments, provided that such real estate is not to be sold, the first instalment to be paid within one year from the death, and the other instalments carrying interest at 3 per cent. per annum from that date.

Having, therefore, delivered this account and paid the duty, we are now able to open the Executorship Books of Account, and the first point to consider is, what books are to be kept.

A Cash Book and Ledger are always necessary, and special books relating to Property Accounts (that is, rentals, etc.), and a Journal may also be used. The Rentals Accounts are indeed desirable where considerable property exists of this nature, in order to avoid unnecessary detail in the main books of account; but the present practice is rather to discard the Journal, since it is admitted on all hands that the full particulars of each transaction should appear in the Ledger, and if these details have already appeared in the Journal, it means extra work, and rather savours of vain repetition.

It is the usual practice to bank *all* receipts, and make all payments by cheque, and therefore the Cash Book becomes merely a detailed Bank Account. In trust matters, the two columns in the Cash Book are usually reserved, therefore, for income and capital; but in simple executorship matters, where no life interests are involved, they may be treated as "details" and "totals" columns, which method is adopted in this chapter.

With regard to the Ledger, the following accounts should be opened if applicable to any particular case:—

(1) "Capital," "Corpus" or "Estate" Account, all of these terms being used in this connection.

(2) Income Account.

(3) An Account for each Investment or Asset.

(4) An Account for each Residuary Legatee.

(5) An Account for each Annuitant or Life Tenant.

(6) An Executorship Expenses Account.

(7) A Funeral Expenses Account.

(8) A Testamentary Expenses and Death Duties Account.

(9) A Legacies Account.

(10) An Account for Creditors.

The Ledger will then be commenced from the particulars supplied by the Estate Duty Account, and here again the practice varies according to the circumstances of the case. If the estate has to be realized immediately, either for purposes of distribution, or on account of the investments not being in authorized securities, many people prefer to enter the valuation appearing in the account as memoranda only in the books until actually realized; but where a trust is concerned, and many of the assets will be kept in their present form for any length of time, it is better to enter the valuations at once,

and deal with any variations which occur on realization in the ordinary way. This method is frequently used, even where the assets will be promptly realized.

The estate should be realized within twelve months of the death, and the instructions of the will carried out. It must be remembered that in addition to estate duty, which is borne by the estate, there are other duties payable by the beneficiaries out of their own portion of the estate; or, rather, the executor is bound by law to pay these duties before he hands over the legacy, etc., to the legatee. These duties are known as legacy duty and succession duty, the former being charged on all legacies of personal property except leaseholds, whilst the latter is charged on real estate and leaseholds. The rate of duty is the same in each case, and varies with the relationship between the deceased and the recipient.

Husbands and wives pay no legacy or succession duty, nor do lineal ancestors or descendants where estate duty has been paid; where it has not been paid, ancestors or descendants have to pay 1 per cent. The other rates are—

Brother or sister, or their descendants . . .	3	per cent.
Uncle or aunt, or their descendants	5	,,
Great-uncle or great-aunt, or their descendants	6	,,
Other relations, and strangers in blood . . .	10	,,

The remaining death duty paid is known as settlement estate duty, and is a duty of 1 per cent. imposed on all settlements made, whereby the property settled passes to certain beneficiaries only after the life interest of other or others.

Presuming the estate to be solvent, the debts, expenses, and legacies will all be paid, and then the residue will be handed over to those entitled. If the residuary legatees, or any of them, are liable for legacy duty, a statement of account must be made up in an official form, known as the "Residuary Account" (No. 3), to enable the commissioners to assess the legacy duty, and after payment of the duty the executor will probably arrange to receive a release under seal from the said legatees.

The following is an example of a simple executorship matter, where no trust or settlement is created by the will.

John Smith dies on June 30, leaving the following estate:—

	£
Cash at bank	120
Loan to the firm of John Smith & Co., of which his son is proprietor—interest paid to date, and not to be charged after the death of John Smith, provided the estate is wound up in six months	10,000
Salford Corporation (interest paid to date)—£4000 3 per cent. stock valued at par	4,000
Liabilities	600

His will directed that after payment of his just debts and funeral expenses, the sum of £1000 shall be paid to his cousin, William Smith, an annuity of £50 a year for life to be paid to his housekeeper, now aged sixty-five, free of tax, and the residue of his estate shall be divided between his son, James Smith, who takes three-quarters of it, whilst the remaining quarter is to pass to his niece, Emma Smith.

His funeral expenses were £120, and the executors accordingly paid duty on July 31 on £13,400, which, at the appropriate rate of 4 per cent., amounted to £536, together with interest for one month at 3 per cent., £1 6*s.* 10*d.*, the bank granting an overdraft to pay the same.

The executorship expenses came to £78 13*s.* 2*d.*, and early in August the corporation stock was sold for £4040, less £20 commission. Out of this money the debts and legacy and expenses were paid, and the annuity was purchased from the Government for the sum of £540.

On September 30, James Smith paid £3000 capital, retaining the remaining £7000 as part of his share, whilst on the same day the Residuary Account was prepared, and after legacy duty was paid upon it on behalf of Emma Smith, the estate was duly divided in the proportions named.

The entries in the books appeared as follows:—

Dr. CASH BOOK Cr.

Date	Particulars	£	s.	d.
June 30	To Estate Account	120	0	0
Aug. 10	„ Salford Corporation Stock— £4000 at 101 . . . £4040; Less commission and expenses . . . 20	4020	0	0
Sept. 30	„ John Smith and Co.	3000	0	0
		£7140	0	0

Date	Particulars	£	s.	d.
July 31	By estate duty	536	0	0
„	„ interest on same	1	6	10
Aug. 31	„ sundry creditors	600	0	0
„	„ funeral expenses	120	0	0
„	„ Legacies Account— William Smith . . . £1000; Less legacy duty . . 50	950	0	0
„	„ duty on same	50	0	0
Sept. 10	„ Legacies Account— Mrs. H., purchase of annuity free of tax	540	0	0
	„ duty on same	54	0	0
„ 30	„ executorship expenses	78	13	2
Oct. 5	„ Emma Smith— One quarter of residue . . . £2802 10 0; Less legacy duty 84 1 6	2718	8	6
	„ duty on same	84	1	6
	„ James Smith	1407	10	0
		£7140	0	0

Dr. ESTATE

		Estimate for probate. £	s.	d.	Actual. £	s.	d.
June 30	To sundry creditors	600	0	0	600	0	0
"	" funeral expenses	120	0	0	120	0	0
Oct. 5	" Estate Duty Account				537	6	10
"	" Legacies Account				1,594	0	0
"	" executorship expenses				78	13	2
"	" Residuary Account				11,210	0	0
					£14,140	0	0

JOHN SMITH

		Estimate for probate. £	s.	d.	£	s.	d.
June 30	To Estate Account Loan (no interest payable)	10,000	0	0			
Oct. 5	" Estate Account				10,000	0	0

SALFORD

		Estimate for probate. £	s.	d.	£	s.	d.
June 30	To Estate Account—£4000 3% stock at par	4,000	0	0			
"	" Estate Account				4,020	0	0

SUNDRY

		£	s.	d.
Aug. 31	To cash	600	0	0

FUNERAL EXPENSES

		£	s.	d.
Aug. 31	To cash	120	0	0

ESTATE DUTY

		£	s.	d.
July 31	To cash—Duty	536	0	0
	" Interest	1	6	10

ACCOUNT Cr.

		Estimate for probate.			Actual.		
		£	s.	d.	£	s.	d.
June 30	By balance in bank	120	0	0	120	0	0
"	" John Smith and Co.	10,000	0	0	10,000	0	0
"	" Salford Corporation	4,000	0	0	4,020	0	0
					£14,140	0	0

AND CO.

Sept. 30	By Cash	3,000	0	0
Oct. 5	" James Smith, for debt taken over on account of residue	7,000	0	0
		10,000	0	0

CORPORATION

Aug. 10	By cash— £4000 stock at 101 . . . £4040; Less commission, etc. . . . 20	4,020	0	0

CREDITORS

		Estimate for probate.					
June 30	By Estate Account	600	0	0			
Aug. 31	" " "				600	0	0

ACCOUNT

		Estimate for probate.					
June 30	By Estate Account	120	0	0			
Aug. 31	" " "				120	0	0

ACCOUNT

Oct. 5	By Estate Account	537	6	10

Dr. LEGACIES ACCOUNT

		Actual.		
		£	s.	d.
Aug. 31	To cash—William Smith	950	0	0
	„ Duty on same	50	0	0
Sept. 10	„ Mrs. H.	540	0	0
	„ Duty on same	54	0	0
		1594	0	0

EXECUTORSHIP

Sept. 30	To cash	78	13	2

JAMES

Oct. 5	To Transfer to John Smith and Co. for debt taken over by him	7000	0	0
„	„ cash	1407	10	0
		8407	10	0

EMMA

Oct. 5	To cash . . . £2802 10 0 Less duty . . . 84 1 6	2718	8	6
	„ duty on same at 3 per cent.	84	1	6
		2802	10	0

RESIDUARY

Oct. 5	To James Smith, three-fourths of residue	8,407	10	0
„	„ Emma Smith, one-fourth of residue	2,802	10	0
		11,210	0	0

(including Annuity Purchased) Cr.

		Actual. £	s.	d.
Oct. 5	By Estate Account	1594	0	0
		1594	0	0

EXPENSES

Oct. 5	By Estate Account	78	13	2

SMITH

Oct. 5	By Residuary Account	8407	10	0
		8407	10	0

SMITH

Oct. 5	By Residuary Account	2802	10	0
		2802	10	0

ACCOUNT

Oct. 5	By Estate Account, being residue available for distribution	11,210	0	0
		11,210	0	0

In cases where it is at all doubtful whether or not the estate is solvent, the executor should be careful to see that he only pays the debts due by the deceased in their proper order, which is after funeral, testamentary, and executorship expenses of realization and preservation.

1. Crown debts.
2. Debts having priority by statute, *e.g.* debt due to a friendly society from the officer responsible.
3. Judgments obtained against the deceased and debts due to the court.
4. Specialty debts.
5. Simple contract debts.
6. Voluntary bonds.

The assets must be marshalled to pay these debts in the following order:—

1. General balance of personal estate.
2. Real estate devised for the purpose.
3. Real estate not devised or where devise has lapsed.
4. Real estate devised subject to payment of debts.
5. General legacies.
6. Specific legacies or devises.
7. Personalty over which testator has exercised by will a general power of appointment.
8. Paraphernalia of the widow.

Another variation exists when the deceased has died without a will. In this case the law provides that the court shall appoint an "Administrator" whose position corresponds with that of the executor, and that the real estate shall pass to the heir-at-law, whilst the personal estate is divided in accordance with the statute of distributions, that is—

Where the deceased leaves:—

Widow and children . .	Widow takes one-third, rest to children.
Widow only	Widow takes the first £500 by the Intestates Act, 1890, and one-half the remainder, rest to next of kin.
Children only	All to them equally.
Husband	All to him.

Otherwise to next-of-kin or if dead to their representatives.

An administrator is also appointed if the sole executor is dead, renounces probate, is insane, abroad, or by error none is named in the will. In this case the administrator will distribute the estate as directed by the will.

The following simple definitions will assist those unfamiliar with this class of accounts.

Administrator.—One appointed by the court to administer the estate of a deceased person dying without a will, or where the appointment of an executor has failed.

Devise.—Gift of real estate by will.

Executor.—One appointed by the will to administer the estate of the testator.

Legacy or Bequest.—Gift of personal estate by the will.

(*a*) General—a pecuniary legacy.

(*b*) Specific—a particular article; "my gold watch."

(*c*) Demonstrative—one directed to be paid from a particular fund.

Personal Estate.—All assets of the deceased passing in case of intestacy to the next of kin, and including book debts, stock-in-trade, shares, leaseholds, cash, etc.

Probate.—Parchment copy of the will with the certificate of the court attached.

Real Estate.—Assets passing in cases of intestacy to the heir-at-law, and including land of a freehold or copyhold tenure, certain shares, *e.g.* those in the New River Company, Aire and Calder Canal, etc., and certain other assets attached to the land such as forests, animals in a state of nature, etc.

Residue.—Balance of estate after payment of debts, legacies, and expenses.

Testator.—A deceased person who has left a will as opposed to an "Intestate" who has not left a will.

Will.—The legal declaration of a person's wishes as to the disposal of his property after his death.

QUESTIONS AND EXERCISES

214. Give definitions of life tenant, remainder-man, executor, administrator.

215. State how a trustee should value the assets for the Estate Duty Account.

216. Enumerate the rates of estate duty on estates from £100 to £25,000.
217. What concessions are allowed on small estates?
218. Name the books you would advise an executor to keep.
219. Give a list of ledger accounts you consider it necessary to keep.
220. State the rates of legacy duty.
221. Distinguish between the various forms of legacies.
222. S. Watson died on November 18, 1903, leaving property as follows:—

	£	s.	d.
Policy of insurance and bonus	339	18	0
Cash at bank	24	12	9
Cash in hand	10	0	0
Club insurance	20	17	6
Consols	461	15	9
Household furniture (valued for probate at £20).			

The policy of insurance was left to his daughter Mary, and the remainder to his widow, Amelia Jane.

The executor pays:—

	£	s.	d.
Undertaker's and burial fees	15	2	6
Stone over grave	7	0	0
Medical fees	6	1	0
Probate, estate duty, etc.	19	13	10

The insurance *less* proportion of probate duty, etc., was paid over to the daughter, and of the remainder, consols and cash at bank were transferred to the widow's name, the brokerage on the consols being 6*s*. 3*d*.

Draw up the executor's accounts, showing the balance of cash paid over to the residuary legatee. No other expenses.

CHAPTER XXVIII

TRUST ACCOUNTS

Apportionments—Investments—Life Interests—Examples of Accounts

In this chapter it is proposed to treat of those points arising in Executorship Accounts which were not dealt with in the last chapter, and more particularly of those estates where the deceased has left a life interest to one person with remainder to another.

The first difference arising in cases like this is the absolute necessity for the careful apportionment of every penny of income accruing at death between capital and revenue. The Apportionment Act, 1870, provides "that all rents, annuities, dividends, and other periodical payments in the nature of income" shall be regarded as accruing from day to day, and that that portion which has accrued prior to death is capital and that the remainder is income. In practice these calculations should be made on the basis of the respective number of days belonging to each division; but usually in examinations the questions are arranged to allow of monthly apportionments.

The next point to remember is that the entire estate which is made the subject of a settlement or a trust of this nature must be invested as soon as possible in those investments authorized for such estates. These are, firstly, any investments authorized by the will for the particular trust; secondly, in the absence of such directions certain securities set out by law for this purpose.

The law at present in force with respect to these is set out in various Acts, notably the Trustee Acts of 1893 and 1894, and the Colonial Stock Act of 1900.

Amongst the authorized securities are—

Government securities of the United Kingdom; and

Securities the interest on which is guaranteed by Parliament.

Indian Government stocks; and

Indian railway securities, the interest on which is guaranteed by the Indian Government.

Stock of the Bank of England and of the Bank of Ireland.

Preference, guaranteed, or debenture stock of British railways which have paid at least 3 per cent. on their ordinary stock for each of the last ten years.

Preference, guaranteed, or debenture stock of British water companies which have paid at least 5 per cent on their ordinary stock for the last ten years.

The stock of any municipal borough having, according to the last census, returns over 50,000 inhabitants.

Provided that in the case of any redeemable stock, such stock shall not be purchased by a trustee within 15 years of the time it is redeemable at a premium, nor shall a redeemable stock ever be purchased at a premium exceeding 15 per cent. of its redeemable price. It is also declared that a trustee is not liable for any loss by reason only of continuing to hold a stock which is not authorized as a trust investment, provided that it was so authorized when he purchased it.

The Colonial Stock Act provides that the trustee may invest in any Colonial stocks registered in the United Kingdom according to the Acts of 1877 and 1892, which further comply with any order the Treasury may see fit to make in the *London Gazette* for the purposes under this Act.

To return to the question of apportionments, let us take some examples of how this will work out in actual practice. Suppose that William Jones died on September 30, leaving amongst other assets debentures in the South British Railway Company £2000 valued at £110, and bearing interest at the rate of 4 per cent. per annum payable June 30 and December 31; and also 100 shares of £10 each in the International Trading Company, Ltd., quoted at £20 per share. This company makes up its accounts annually at December 31, but is in the habit of paying interim dividends, and has indeed, on August 31 preceding the death, paid an interim dividend to William Jones of £50 on his holding in the company.

Probate is duly registered with the companies in question, and on January 1 the executors received their debenture

interest on the former security for the half year of £40 (ignoring income tax), and on March 8 a final dividend for the year from the trading company of £70.

The apportionment of the interest in the first case is, of course, quite simple. The deceased lived 92 days of the half-year, and that proportion is capital, and a further 92 days (October 1 to December 31) is credited to income, so that exactly one-half of the £40 is capital and the other half is income. In the other case, however, it is not quite so simple. For the entire year a dividend of £120 was paid, and the deceased lived for 273 days of the period (say 9 months), so that three-fourths of the entire dividend must be credited to capital, say £90, of which the deceased himself received £50 paid in August as an interim dividend, and which had therefore already gone to capital by swelling the bank balance at death. Therefore, of the £70 received by the executors £40 is capital (that is three-fourths of £120 less £50) and £30 is income, being one-quarter of the total dividend for the year.

The next point to be borne in mind is the realization of assets which are not authorized investments, and though the railway company has paid rates of dividend on its ordinary stock varying from 3 per cent. to 4½ per cent. for the last ten years, and is therefore a trust investment, the ordinary stock of a trading company is not authorized, and so on April 30 the executors sell the shares for a net figure of £19 10*s*. per share, and invest the money in a further purchase of the debenture stock of the South British Railway, of which they obtain £1500 nominal value, at 110 per cent. plus charges, keeping the balance in hand for the general purposes of the estate. On this conversion of stock arises the point settled in *re Duff*, deceased, *Muttlebury* v. *Muttlebury*. This case decided that where any stock or shares were sold in a trust estate, the purchase price was not to be apportioned between capital and income; so that although the £19 10*s*. undoubtedly carried with it the right to a share of the profits earned between January 1 and April 30, the entire £19 10*s*. must be treated as capital; but, on the other hand, the interest on the debenture stock, when it is received, will all be credited to income, although on June 30 six months' interest will be paid on a stock which has only been held for two months.

Needless to say the will must be carefully studied to see the

exact terms of the life interest. Such interest may, of course, be a fixed sum per annum, or an annuity, or it may be the right to the entire net income, either till death, or for a term of years, or until the happening of a certain event.

If the interest given is by way of annuity, the executors have the option of buying the beneficiary an annuity from an insurance company, or of paying the same out of the estate. If they adopt the former course, the entry will simply be made in the same way as a legacy, cash being credited and annuities account debited for the cost, which is subsequently transferred from the latter account to the debit of Estate Account. This is probably the best method of dealing with the matter, where the beneficiary is not old, and where no other long trusts are involved which would necessitate the estate being kept open in any case. Where other life interests are given very frequently the annuitant is paid from the general estate, in which case, though not always done, the payment should be apportioned between capital and income.

Very frequently in trust matters the testator allows the trustees to keep his capital in their present investments, and in particular authorizes them to carry on his business. In view of the personal liabilities that he might incur, the trustee cannot be compelled to do this; he should, therefore, carefully consider the position before he finally decides his course of action. He will probably elect to carry it on if it is a very profitable concern, especially if the deceased has left sons to whom he is authorized to sell it when they come of age. He must not, however, use more capital in the business than was in the concern at the time of the testator's death, unless a different amount is mentioned in the will. He is also personally liable to the creditors for any goods he may order, but he is entitled to reimburse himself out of the estate for any payments he may have made up to the amount authorized to be invested in the business.

Another important rule to be borne in mind by the trustee in his apportionment of capital and income, is that by which it is laid down that assets of a wasting or reversionary character must be realized, or treated as realized, for the purposes of the trust (*Howe* v. *Lord Dartmouth*). Where an asset of this description exists, the best course is to have it accurately valued in the first instance, and charge interest at 3 per cent.

on the value and credit it to income, and charge the difference between that figure and the receipts itself as received on account of capital.

In writing up trust accounts, it is necessary to remember that only cash received must be treated as income, the amount accruing due at the date of making up the accounts must never be credited to income account, as would be done in an ordinary commercial business. For the first year, therefore, a beneficiary would never receive the full income, since it must be apportioned as accrued at the time of death, whilst the income which is accruing at the year end is not taken into account. After the first year, of course, it has worked itself straight because, since there was no apportionment in the opening balances, a full year's receipts appear without any diminution.

To illustrate the principles involved, we will take the estate of William Jones, previously mentioned, and set out in full the dealings of his estate for the year.

His will provided that the furniture was to be left to his sister, Mrs. S. Robinson, free of legacy duty, and subject to this and legacies of £100 each to his executors A. B. and C. D., who were strangers in blood, the whole of the estate was to be held in trust for his sister for life, and after her death to her son William Jones Robinson absolutely.

The estate consisted of the following assets and liabilities, as set out by the Estate Duty Account:—

		£
Furniture		500
£2000 4 per cent. debenture stock of the South British Railway Company at 110 per cent.		2200
Prudential Insurance Co. life policy		1000
100 shares of £10 each in the International Trading Co. at £20 per share		2000
H. Smith—Loan on mortgage at 4 per cent.		3000
Interest accrued on same		30
		£8730
Liabilities	£200	
Funeral expenses	80	
		280
		£8450

Estate duty at 3 per cent. £253 10*s*.
One month's interest on same 12*s*. 8*d*.

The following show the executors' transactions on behalf of the estate:—

Date	Transaction	£	s.
1906.			
Oct. 31.	Pay the duty and interest and obtain probate.		
Nov. 5.	Receive claim under the insurance policy.		
„ 30.	Pay legacy duty on the furniture at 3 per cent.		
Dec. 31.	„ the executors' legacies and duty on same.		
„	„ liabilities which amount to	224	0
„	„ funeral expenses, £80, and testamentary expenses . . .	50	0
1907.			
Jan. 1.	Receive interest warrant from the South British Railway Co. for half-year to December 31 less tax	38	0
„ 10.	Receive interest from H. Smith to December 31 less tax . .	57	0
Mch. 3.	Receive final dividend for year ending December 31 from the International Trading Co. free of tax	70	0
	(The Company paid an interim dividend of £50 on August 31 last.)		
Apr. 30.	Receive proceeds of sale of shares in International Trading Co., sold at £19 10*s*. per share net	1950	0
May 5.	Pay for £1500 debenture stock in the South British Railway Co., bought at 110 per cent. plus charges, £11 7*s*. 6*d*.		
„ 16.	Pay Mrs. Robinson on account of income	75	0
„ 27.	Pay for £400 Preference stock in the White Sea Gas Works Co. at 125 per cent. Charges £3 7*s*. 6*d*.		
July 1.	Receive interest from the South British Debenture Stock.		
„ 10.	„ „ „ H. Smith.		
Sept. 30.	Pay Mrs. Robinson on account of income	100	0
„	Pay charges for managing the estate	5	5
„	Prepare statement of accounts at date.		

ESTATE OF THE LATE WILLIAM JONES

EXECUTORS' ACCOUNTS FOR THE YEAR ENDING SEPTEMBER 30, 1907

Dr. **CASH**

		Income.			Capital.		
		£	s.	d.	£	s.	d.
1906 Nov. 5	To Prudential Insurance Company .				1000	0	0
1907 Jan. 1	" South British Railway Company— Half-year's interest at 4% on £2000 to Dec. 31 . . . . £40; Less income tax . . . 2; 38						
	Capital (say 3 months)				19	0	0
	Income (say 3 months)	19	0	0			
" 10	" H. Smith, interest on mortgage of £3000 at 4% for half-year ending Dec. 31 . . . . £60; Less tax at 1s. . . . 3; 57						
	Capital (3 months)				28	10	0
	Income (3 months)	28	10	0			
March 3	" International Trading Co., Ltd.— Final dividend for year ending Dec. 31 . . . . . . £70; Interim paid Aug. 31 . . 50; Total for year . . . 120						
	Proportion capital (9 months) £90; Less received by testator. 50				40	0	0
	Income (3 months)	30	0	0			
April 30	" International Trading Co., Ltd.— Sale of 100 shares at £19 10s. each net . . , ...				1950	0	0
July 1	" South British Railway Company— Interest at 4% on £3500 for half-year ending June 30 . £70 0; Less income tax . . . 3 10	66	10	0			
" 10	" H. Smith, mortgage interest on £3000 at 4% for six months ending June 30 . . . . . . £60; Less income tax . . . 3	57	0	0			
		£201	0	0	3037	10	0
Sept. 30	" balance	20	2	4	50	5	0

ACCOUNT Cr.

		Income.			Capital.		
		£	s.	d.	£	s.	d.
1906 Oct. 31	By Estate Duty on 8450 at 3% . .				253	10	0
"	" interest on same		12	8			
Nov. 30	" Legacies Account, duty on furniture £500 at 3%				15	0	0
Dec. 31	" Legacies Account— A. B. . . . . £100; C. D. . . . . 100; 200; Less legacy duty . 20				180	0	0
"	" Legacies Account Duty on same .				20	0	0
"	" sundry creditors				224	0	0
"	" funeral expenses				80	0	0
"	" testamentary expenses				50	0	0
1907 May 5	" South British Railway Company— Purchase of £1500 stock (4% debenture) at 110% £1650 0 0; Charges on same . . 11 7 6				1661	7	6
" 16	" Mrs. Robinson on account of income	75	0	0			
" 27	" White Sea Gas Works Company— £400 preference stock (5%) at 125 . . . . . £500 0 0; Charges on same . . 3 7 6				503	7	6
	(Dividend payable: April and October)						
Sept. 30	" Mrs. Robinson on account of income	100	0	0			
"	" Z. and Co., charge for managing the estate	5	5	0			
"	" balance	20	2	4	50	5	0
		£201	0	0	3037	10	0

Dr. ESTATE

		£	s.	d.
1906 Sept. 30	To liabilities	200	0	0
"	" funeral expenses	80	0	0
1907 Sept. 30	" H. Smith, income tax deducted from mortgage interest	1	10	0
"	" International Trading Co., Ltd.— Loss on realization	10	0	0
"	" additional creditors	24	0	0
"	" Estate Duty	253	10	0
"	" Legacies Account—			
	Furniture £500, and duty £15	515	0	0
	A. B., and C. D.	180	0	0
	Duty	20	0	0
"	" testamentary expenses	50	0	0
"	" balance	7396	0	0
		8730	0	0

INCOME

		£	s.	d.
1907 Sept. 30	To interest on Estate Duty		12	8
"	" charges to date, managing estate	5	5	0
"	" Mrs. Robinson, net income transferred	195	2	4
		£201	0	0

FURNITURE

1906 Sept. 30	To Estate Account	500	0	0

PRUDENTIAL INSUR

1906 Sept. 30	To Estate Account	1000	0	0

SUNDRY

1906 Dec. 31	To cash	224	0	0

FUNERAL

1906 Dec. 31	To cash	80	0	0

ACCOUNT   Cr.

		£	s.	d.
1906 Sept. 30	By furniture	500	0	0
"	" South British Railway Co., debenture stock £2000	2200	0	0
"	" Prudential Insurance Company	1000	0	0
"	" International Trading Co., Ltd., 100 ordinary shares	2000	0	0
"	" H. Smith, loan on mortgage at 4%	3000	0	0
"	" interest accrued on same	30	0	0
		8730	0	0
"	" balance	7396	0	0

ACCOUNT

		£	s.	d.
1907 Sept. 30	By income to date—			
"	" H. Smith	85	10	0
"	" International Trading Co., Ltd.	30	0	0
"	" South British Railway Co.	85	10	0
		£201	0	0

ACCOUNT

1906 Nov. 30	By Legacies Account (Mrs. Robinson)	500	0	0

ANCE COMPANY

1906 Nov. 5	By cash	1000	0	0

CREDITORS

1906 Sept. 30	By Estate Account	200	0	0
1907 Sept. 30	" " " excess of creditors over estimate .	24	0	0

EXPENSES

1906 Sept. 30	By Estate Account	80	0	0

Dr. H. SMITH. LOAN ON

		Income.			Capital.		
		£	s.	d.	£	s.	d.
1906 Sept. 30	To Estate Account. Mortgage of £3000 at 4% payable June and December				3000	0	0
"	" Estate Account interest accrued to date				30	0	0
1907 Sept. 30	" Income Account	85	10	0			
		85	10	0	3030	0	0
	" balance				3000	0	0

INTERNATIONAL

		Income.			Capital.		
		£	s.	d.	£	s.	d.
1906 Sept. 30	To Estate Account for 100 ordinary shares of £10 each at £20 . . .				2000	0	0
1907 Sept. 30	" Income Account	30	0	0			
		30	0	0	2000	0	0

ESTATE DUTY

1906 Oct. 31	To cash, for duty at 3 per cent. . . .				253	10	0
"	" interest on same		12	8			

LEGACIES

1906 Nov. 30	To furniture (specific legacy)	500	0	0
"	" cash, duty on same	15	0	0
Dec. 31	" cash, A. B. £100, less duty	90	0	0
"	" " C. D. £100, less duty.	90	0	0
"	" " duty on above	20	0	0
		715	0	0

MORTGAGE OF "WOODLEA" Cr.

		Income. £	s.	d.	Capital. £	s.	d.
1907 Jan. 10	By cash, interest on same for half-year ending Dec. 31 . . . . £60 Less tax 3 57						
"	" capital, 92 days				28	10	0
"	" income, 92 "	28	10	0			
July 10	" cash, half-year's interest to June 30, less tax	57	0	0			
"	" Estate Account transfer				1	10	0
"	" balance				3000	0	0
		85	10	0	3030	0	0

TRADING CO., LTD.

		Income. £	s.	d.	Capital. £	s.	d.
1907 March 3	By cash, final dividend for year ending Dec. 31, 1906 . . . £70						
"	Interim paid August 31 . . 50 Total. . . . 120						
"	Capital, 9 months . . . . £90 Less received 50				40	0	0
"	" income, 3 months	30	0	0			
April 30	" cash, proceeds of shares at £19 10s.				1950	0	0
"	" Estate Account, loss on realization				10	0	0
		30	0	0	2000	0	0

ACCOUNT

		Income. £	s.	d.	Capital. £	s.	d.
1907 Sept. 30	By Estate Account				253	10	0
"	" Income Account		12	8			

ACCOUNT

		£	s.	d.
1907 Sept. 30	By Estate Account	715	0	0
		715	0	0

Dr. TESTAMENTARY

		£	s.	d.
1906 Dec. 31	To cash	50	0	0

MRS.

1907 May 16	To cash	75	0	0
Sept. 30	" "	100	0	0
	" balance	20	2	4
		195	2	4

WHITE SEA GAS

1907 May 27	To cash, purchase of £400 5% preference stock at £125 . . . £500 0 0 Charges on same . . . 3 7 6	503	7	6

SOUTH BRITISH

		Income.			Capital.		
		£	s.	d.	£	s.	d.
1906 Sept. 30	To Estate Account for £2000 debenture stock 4%, payable June and December, at £110				2200	0	0
1907 May 5	" cash, purchase of £1500 4% debenture stock at 110% . £1650 0 0 Charges on same . . 11 7 6				1661	7	6
"	" Income Account, transfer of income to date	85	10	0			
		85	10	0	3861	7	6
"	" balance, £3500 stock at 110 and charges				3842	7	6

BALANCE SHEET,

Liabilities.			
To Estate Account.	7396	0	0
" Mrs. Robinson. Balance of income not drawn	20	2	4
	£7416	2	4

EXPENSES Cr.

		£	s.	d.
1907 Sept. 30	By Estate Account	50	0	0

ROBINSON

		£	s.	d.
1907 Sept. 30	By Income Account, being net income to date . . .	195	2	4
		195	2	4
„	„ balance	20	2	4

WORKS COMPANY

RAILWAY COMPANY

		Income.			Capital.		
		£	s.	d.	£	s.	d.
1907 Jan. 1	By cash, half-year's interest to December 31 . . . . £40 Less tax 2 38						
	„ capital (92 days)				19	0	0
	„ income (92 „)	19	0	0			
July 1	„ cash, half-year's interest to June 30 . . . . £70 0 0 Less tax 3 10 0	66	10	0			
Sept. 30	„ balance				3842	7	6
		85	10	0	3861	7	6

SEPTEMBER 30, 1907

Assets.			
By South British Railway Co. £3500 4% debenture stock at 110 and charges	3842	7	6
„ White Sea Gas Works Company. £400 5% preference stock at 125 and charges	503	7	6
„ H. Smith. Loan on mortgage	3000	0	0
„ bank.	70	7	4
	£7416	2	4

QUESTIONS AND EXERCISES

223. What is meant by apportionment, and how is it calculated?

224. Mention a few authorized securities?

225. What is the duty of the trustee in regard to assets of a wasting or reversionary character?

226. Give an example of an Estate Account.

227. Explain, by giving details of each, how the duties of an executor differ from those of a trustee under a will.

228. Prepare from the following particulars, supplying the figures yourself, an Estate Account to be presented to the executors and trustees of the late X. Y. Z.:—

Debts due at death by testator.
Debts due at death to testator.
Testamentary expenses—costs.
" " duty.
Mortgages on properties.
Cash in house.
" at bank.
Leasehold properties.
Freehold "
Rents due to testator.
Investments.
Household goods, furniture, etc.
Cost of sale of licensed premises.
Proceeds of sale of "

229. Construct from the following figures a set of executorial accounts, at December 31, 1904, the testator having died on June 30 previous:—

	£
Madras railway annuities, £170 paid to March 31 last, worth	5800
Household furniture (bequeathed to widow)	400
Cash in bank	780
Cash in house	10
Testator's interest in partnership business	9000
(This was paid out with 4 per cent. interest on August 31, and invested in 3 per cent. Consols at 92).	

£1000 Great Central Railway 5 per cent. guaranteed stock at 136 (interest received to March 31).

£500 J. & P. Coats £1 ordinary at £5. (Twenty-five per cent. dividend for he year ended June 30 is received on September 30.)

Assume all interest has been received to end of year, and provide annuities of £300 for widow, and £100 for testator's daughter, Mary, the balance of income being divisible between two sons, John and James. £120 has been paid for testamentary expenses.

APPENDIX

TABLE A OF THE COMPANIES ACTS

As revised 1906

Preliminary

1. In these regulations, unless the context otherwise requires, expressions defined in the Companies Acts, 1862 to 1900, or any statutory modification thereof in force at the date at which these regulations become binding on the company, shall have the meanings so defined; and words importing the singular number only shall include the plural number, and *vice versâ;* and words importing the masculine gender shall include the feminine; and words importing persons shall include corporations.

Business

2. The directors shall have regard to the restrictions on the commencement of business imposed by sect. 6 of the Companies Act, 1900, if and so far as such restrictions shall be binding upon the company.

Shares

3. Subject to the provisions (if any) in that behalf of the memorandum of association of the company, and without prejudice to any special rights previously conferred on the holders of existing shares in the company, any share in the company may be issued with such preferred, deferred, or other special rights, or such restrictions, whether in regard to dividend, voting, return of capital, or otherwise, as the company may, from time to time, by special resolution determine.

4. If at any time the capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied, with the consent, in writing, of the holders of three-fourths of the issued shares

of that class, or with the sanction of an extraordinary resolution, passed at a separate general meeting of the holders of the shares of the class. To every such separate general meeting the provisions of these regulations relating to general meetings shall, *mutatis mutandis*, apply, but so that the necessary quorum shall be two persons at least, holding, or representing by proxy, one-third of the issued shares of the class.

5. No share shall be offered to the public for subscription, except upon the terms that the amount payable on application shall be at least five per cent. of the nominal amount of the share; and the directors shall, as regards any allotment of shares, duly comply with such of the provisions of the Companies Act, 1900, sects. 4 and 7, as may be applicable thereto.

6. Every person whose name is entered as a member in the register of members shall, without payment, be entitled to a certificate under the common seal of the company, specifying the share or shares held by him and the amount paid up thereon, provided that in respect of a share or shares held jointly by several persons, the company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all.

7. If a share certificate is defaced, lost, or destroyed, it may be renewed on payment of such fee (if any), not exceeding one shilling, and on such terms (if any) as to evidence and indemnity as the directors think fit.

8. No part of the funds of the company shall be employed in the purchase of, or in loans upon, the security of the company's shares.

Lien

9. The company shall have a lien on every share (not being a fully-paid share) for all monies (whether presently payable or not) called or payable at a fixed time in respect of such share, and the company shall also have a lien on all shares (other than fully-paid shares) standing registered in the name of a single person, for all monies presently payable by him or his estate to the company; but the directors may at any time declare any share to be wholly, or in part, exempt from the provisions of this clause. The company's lien (if any) on a share shall extend to all dividends payable thereon.

10. The company may sell, in such manner as the directors think fit, any shares on which the company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable, nor until the expiration of fourteen days after a notice in

writing, stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder, for the time being, of the share, or the person entitled, by reason of his death or bankruptcy, to the share.

11. The proceeds of the sale shall be applied in payment of such part of the amount in respect of which the lien exists as is presently payable, and the residue shall (subject to a like lien for sums not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the date of the sale. The purchaser shall be registered as the holder of the shares, and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.

Calls on Shares

12. The directors may from time to time make calls upon the members in respect of any monies unpaid on their shares, provided that no call shall exceed one-fourth of the nominal amount of the share, or be payable at less than one month from the last call; and each member shall (subject to receiving at least fourteen days' notice, specifying the time or times of payment) pay to the company, at the time or times so specified, the amount called on his shares.

13. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

14. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of £5 per cent. per annum from the day appointed for the payment thereof to the time of the actual payment; but the directors shall be at liberty to waive payment of such interest wholly or in part.

15. The provisions of these regulations as to payment of interest shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of a share, or by way of premium, as if the same had become payable by virtue of a call duly made and notified.

16. The directors may make arrangements on the issue of shares for a difference between the holders in the amount of calls to be paid and in the times of payment.

17. The directors may, if they think fit, receive from any member willing to advance the same all or any part of the monies uncalled and unpaid upon any shares held by him; and upon all or any of the monies so advanced may (until the same would, but for such advance,

become presently payable) pay interest at such rate (not exceeding, without the sanction of the company in general meeting, 6 per cent.) as may be agreed upon between the member paying the sum in advance and the directors.

Transfer and Transmission of Shares

18. The instrument of transfer of any share in the company shall be executed both by the transferor and transferee, and the transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the register of members in respect thereof.

19. Shares in the company shall be transferred in the following form, or in any usual or common form which the directors shall approve :—

> I, A. B., of , in consideration of the sum of pounds paid to me by C. D., of (hereinafter called "the said transferee"), do hereby transfer to the said transferee the share [*or* shares] numbered in the undertaking called The Company, Limited, to hold unto the said transferee, his executors, administrators and assigns, subject to the several conditions on which I held the same at the time of the execution hereof; and I, the said transferee, do hereby agree to take the said share [*or* shares] subject to the conditions aforesaid.
>
> As witness our hands the day of .
>
> Witness to the signatures of, etc.

20. The directors may decline to register any transfer of shares (not being fully-paid shares) to a person of whom they do not approve, and may also decline to register any transfer of shares on which the company has a lien. The directors may also suspend the registration of transfers during the 14 days immediately preceding the ordinary general meeting in each year. The directors may decline to recognize any instrument of transfer, unless (*a*) a fee not exceeding 2*s*. 6*d*. is paid to the company in respect thereof, and (*b*) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

21. The executors or administrators of a deceased sole holder of a share shall be the only persons recognized by the company as having any title to the share. In the case of a share registered in the names of two or more holders, the survivors or survivor, or the executors or

administrators of the deceased survivor, shall be the only persons recognized by the company as having any title to the share.

22. Any person becoming entitled to a share in consequence of the death or bankruptcy of a member shall, upon such evidence being produced as may from time to time be required by the directors, have the right either to be registered as a member in respect of the share, or, instead of being registered himself, to make such transfer of the share as the deceased or bankrupt person could have made; but the directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by the deceased or bankrupt person before the death or bankruptcy.

23. A person becoming entitled to a share by reason of the death or bankruptcy of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the company.

Forfeiture of Shares

24. If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the directors may, at any time thereafter during such time as any part of such call or instalment remain unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued.

25. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

26. If the requisitions of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may, at any time thereafter before the payment required by the notice has been made, be forfeited by a resolution of the directors to that effect.

27. A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the directors think fit, and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the directors think fit.

28. A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding,

remain liable to pay to the company all monies which, at the date of forfeiture, were presently payable by him to the company in respect of the shares, but his liability shall cease if and when the company shall have received payment in full of the nominal amount of the shares.

29. A statutory declaration in writing that the declarant is a director of the company, and that a share in the company has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share, and such declaration, and the receipt of the company for the consideration (if any) given for the share on the sale or disposition thereof, shall constitute a good title to such share, and the person to whom the share is sold or disposed of shall be registered as the holder of the share, and shall not be bound to see to the application of the purchase money (if any), nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.

30. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of the share, or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

Conversion of Shares into Stock

31. The directors may, with the sanction of the company previously given in general meeting, convert any paid-up shares into stock, and may, with the like sanction, re-convert any stock into paid-up shares of any denomination.

32. The holders of stock may transfer the same, or any part thereof, in the same manner and subject to the same regulations as and subject to which the shares from which the stock arose might, previously to conversion, have been transferred, or as near thereto as circumstances admit; but the directors may from time to time fix the minimum amount of stock transferable, and restrict or forbid the transfer of fractions of such minimum, but the minimum shall not exceed the nominal amount of the shares from which the stock arose.

33. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, voting at meetings of the company and other matters, as if they held the shares from which the stock arose, but no such privilege or advantage (except participation in the dividends and profits of the company) shall be conferred by any such aliquot part of stock

as would not, if existing in shares, have conferred such privilege or advantage.

34. Such of the regulations of the company (other than those relating to share warrants) as are applicable to paid-up shares shall apply to stock; and the words "share" and "shareholder" therein shall include "stock" and "stockholder."

Share Warrants

35. The company may issue share warrants, and accordingly the directors may, in their discretion, with respect to any share which is fully paid-up, on application in writing, signed by the person registered as holder of the share, and authenticated by such evidence (if any) as the directors may from time to time require as to the identity of the person signing the request, and on receiving the certificate (if any) of the share and the amount of the stamp duty on the warrant, and such fee as the directors may from time to time require, issue, under the company's seal, a warrant, duly stamped, stating that the bearer of the warrant is entitled to the shares therein specified, and may provide, by coupons or otherwise, for the payment of dividends or other monies on the shares included in the warrant.

36. A share warrant shall entitle the bearer to the shares included in it, and the shares shall be transferred by the delivery of the share warrant, and the provisions of the regulations of the company, with respect to transfer and transmission of shares, shall not apply thereto.

37. The bearer of a share warrant shall, on surrender of the warrant to the company for cancellation, and on payment of such sum as the directors may from time to time prescribe, be entitled to have his name entered as a member in the register of members in respect of the shares included in the warrant.

38. The bearer of a share warrant may at any time deposit the warrant at the office of the company, and so long as the warrant remains so deposited, the depositor shall have the same right of signing a requisition for calling a meeting of the company and of attending and voting and exercising the other privileges of a member at any meeting held after the expiration of two clear days from the time of deposit, as if his name were inserted in the register of members as the holder of the shares included in the deposited warrant. Not more than one person shall be recognized as depositor of the share warrant. The company shall on two days' written notice return the deposited share warrant to the depositor.

39. Subject as herein otherwise expressly provided, no person shall, as bearer of a share warrant, sign a requisition for calling a meeting of

the company, or attend, or vote, or exercise any other privilege of a member at a meeting of the company, or be entitled to receive any notices from the company; but the bearer of a share warrant shall be entitled, in all other respects, to the same privileges and advantages, as if he were named in the register of members as the holder of the shares included in the warrant, and he shall be a member of the company.

40. The directors may, from time to time, make rules as to the terms on which, if they shall think fit, a new share warrant or coupon may be issued, by way of renewal in case of defacement, loss, or destruction.

Alteration of Capital

41. The directors may, with the sanction of an extraordinary resolution of the company, increase the capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe.

42. Subject to any direction to the contrary that may be given by the resolution sanctioning the increase of capital, all new shares shall, before issue, be offered to such persons as, at the date of the offer, are entitled to receive notices from the company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares to which they are entitled. Such offer shall be made by notice, specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and after the expiration of such time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the directors may dispose of the same in such manner as they think most beneficial to the company. The directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the directors, be conveniently offered under this clause.

43. The new shares shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise, as the shares in the original capital.

44. The company may, by special resolution—

(*a*) Consolidate and divide its capital into shares of larger amount than its existing shares.

(*b*) By subdivision of its existing shares, or any of them, divide the whole or any part of its capital into shares of smaller amount than is fixed by the memorandum of association, subject, nevertheless, to the proviso contained in the Companies Act, 1867, sect. 21.

(*c*) Cancel any shares which, at the date of the passing of the

resolution, have not been taken or agreed to be taken by any person.

(*d*) Reduce its capital in any manner, and with and subject to any incident authorized and consent required by law.

General Meetings

45. The statutory general meeting of the company shall be held within the period required by the Companies Act, 1900, sect. 12.

46. A general meeting shall be held once in every year at such time and place as may be prescribed by the company in general meeting, or, in default, at such time in the month following that in which the anniversary of the company's incorporation occurs, and at such place as the directors shall appoint. In default of a general meeting being so held, a general meeting shall be held in the month next following, and may be convened by any two members in the same manner as nearly as possible as that in which meetings are to be convened by the directors.

47. The above-mentioned general meetings shall be called ordinary meetings. All other general meetings shall be called extraordinary.

48. The directors may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition, or, in default, may be convened by such requisitionists as provided by the Companies Act, 1900, sect. 13. If at any time there shall not be within the United Kingdom sufficient directors capable of acting to form a quorum, any director or any two members of the company may convene an extraordinary general meeting in the same manner as nearly as possible as that in which meetings may be convened by the directors.

Proceedings at General Meetings

49. Seven days' notice at the least (exclusive of the day on which the notice is served or deemed to be served, but inclusive of the day for which notice is given), specifying the place, the day and the hour of meeting, and in case of special business the general nature of such business, shall be given in manner hereinafter mentioned, or in such other manner (if any) as may be prescribed by the company in general meeting, to such persons as are, under the regulations of the company, entitled to receive such notices from the company; but the non-receipt of such notice by any member shall not invalidate the proceedings at any general meeting.

50. All business shall be deemed special that is transacted at an

extraordinary meeting, and all that is transacted at an ordinary meeting, with the exception of sanctioning a dividend, the consideration of the accounts, balance sheets, and the ordinary report of the directors and auditors, the election of directors and other officers in the place of those retiring by rotation, and the fixing of the remuneration of the auditors.

51. No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business. Save as herein otherwise provided, three members personally present shall be a quorum.

52. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week, at the same time and place, and if at such adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the members present shall be a quorum.

53. The chairman (if any) of the board of directors shall preside as chairman at every general meeting of the company.

54. If there is no such chairman, or if at any meeting he is not present within 15 minutes after the time appointed for holding the meeting, or is unwilling to act as chairman, the members present shall choose some one of their number to be chairman.

55. The chairman may, with the consent of any meeting at which a quorum is present (and shall, if so directed by the meeting), adjourn the meeting from time to time, and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for ten days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

56. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded in case the resolution be proposed as a special or extraordinary resolution by at least five members, or in any other case by at least two members; and, unless a poll is so demanded, a declaration by the chairman that a resolution has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book of proceedings of the company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against such resolution.

57. If a poll is duly demanded, it shall be taken in such manner as the chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

58. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

59. A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs.

Votes of Members

60. On a show of hands every member present in person shall have one vote. On a poll every member shall have one vote for each share of which he is the holder.

61. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

62. A member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, *curator bonis*, or other person in the nature of a committee or *curator bonis*, appointed by such Court, and such committee, *curator bonis*, or other person may, on a poll, vote by proxy.

63. No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the company have been paid.

64. On a poll, votes may be given either personally or by proxy.

65. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or, if the appointor is a corporation, either under the common seal or under the hand of an officer or attorney so authorized. No person shall act as a proxy unless either he is entitled on his own behalf to be present and vote at the meeting at which he acts as proxy, or he is appointed to act at that meeting as proxy for a corporation.

66. The instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, shall be deposited at the registered office of the company not less than forty-eight hours before the time for holding the meeting at which the person named in the

instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.

67. An instrument appointing a proxy may be in the following form, or in any other form which the directors shall approve :—

The Company, Limited.

I, , of , in the county of , being a member of The Company, Limited, hereby appoint , of as my proxy to vote for me and on my behalf at the ordinary [*or* extraordinary *as the case may be*] general meeting of the company to be held on the day of , and at any adjournment thereof.

Signed this day of

Directors

68. The number of the directors and the names of the first directors shall be determined in writing by a majority of the subscribers of the memorandum of association.

69. The remuneration of the directors shall from time to time be determined by the company in general meeting.

70. The qualification of a director shall be the holding of at least one share in the company, and it shall be his duty to comply with the provisions of The Companies Act, 1900, sect. 3.

Powers and Duties of Directors

71. The business of the company shall be managed by the directors, who may pay all expenses incurred in getting up and registering the company, and may exercise all such powers of the company as are not by The Companies Acts, 1862 to 1900, or any statutory modification thereof for the time being in force, or by these articles, required to be exercised by the company in general meeting, subject, nevertheless, to any regulations of these articles, to the provisions of the said Acts, and to such regulations, being not inconsistent with the aforesaid regulations or provisions, as may be prescribed by the company in general meeting; but no regulations made by the company in general meeting shall invalidate any prior act of the directors which would have been valid if such regulation had not been made.

72. The directors may, from time to time, appoint one or more of their body to the office of managing director or manager, for such term

and at such remuneration (whether by way of salary or commission, or participation in profits, or partly in one way and partly in another) as they may think fit, and a director so appointed shall not, while holding such office, be subject to retirement by rotation, or taken into account in determining the rotation of retirement of directors; but his appointment shall be subject to determination, *ipso facto*, if he shall cease, from any cause, to be a director, or if the company in general meeting shall resolve that his tenure of the office of managing director or manager be determined.

73. The amount, for the time being, remaining undischarged of monies borrowed or raised by the directors for the purposes of the company (otherwise than by the issue of share capital), shall not at any time exceed the issued capital of the company without the sanction of the company in general meeting.

74. The directors shall duly comply with the provisions of the Companies Act, 1862 to 1900, or any statutory modification thereof, for the time being, in force, and in particular the provisions in regard to the registration of mortgages and charges affecting the property of, or created by the company, and to keeping a register of the directors, and in regard to sending to the Registrar of Joint Stock Companies an annual list of members, and a summary of particulars relating thereto, and notice of any consideration or increase of capital, or conversion of shares into stock, and copies of special resolutions, and a copy of the register of directors and notifications of any changes therein.

75. The directors shall cause minutes to be made in books provided for the purpose—

(*a*) Of all appointments of officers made by the directors;

(*b*) Of the names of the directors present at each meeting of the directors and of any committee of the directors;

(*c*) Of all resolutions and proceedings at all meetings of the company, and of directors and of committees of directors;

and every director present at any meeting of directors or committee of directors shall sign his name in a book to be kept for that purpose.

The Seal

76. The seal of the company shall not be affixed to any instrument except by the authority of a resolution of the board of directors, and in the presence of at least two directors and of the secretary, or such other person as the directors may appoint for the purpose; and those two directors and secretary, or other person as aforesaid, shall sign every instrument to which the seal of the company is so affixed in their presence.

Disqualifications of Directors

77. The office of director shall be vacated—

If he ceases to be a director by virtue of the Companies Act, 1900, sect. 3.

If he holds any other office of profit under the company except that of managing director or manager.

If he becomes bankrupt.

If he is found lunatic or becomes of unsound mind.

If he is concerned or participates in the profits of any contract with the company.

But the above rules shall be subject to the following exceptions:—That no director shall vacate his office by reason of his being a member of any company which has entered into contracts with, or done any work for, the company of which he is director: nevertheless, he shall not vote in respect of such contract or work, and if he does so vote his vote shall not be counted.

Rotation of Directors

78. At the first ordinary meeting of the company the whole of the directors shall retire from office, and at the ordinary meeting in every subsequent year one-third of the directors for the time being, or if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office.

79. The directors to retire in every year shall be those who have been longest in office since their last election; but as between persons who became directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

80. A retiring director shall be eligible for re-election.

81. The company at the general meeting at which a director retires in manner aforesaid may fill up the vacated offices by electing a person thereto.

82. If at any meeting at which an election of directors ought to take place the places of the vacating directors are not filled up, the meeting shall stand adjourned till the same day in the next week, at the same time and place; and if at such adjourned meeting the places of the vacating directors are not filled up, the vacating directors, or such of them as have not had their places filled up, shall be deemed to have been re-elected at such adjourned meeting.

83. The company may from time to time in general meeting increase or reduce the number of directors, and may also determine in what rotation such increased or reduced number is to go out of office.

84. Any casual vacancy occurring in the board of directors may be filled up by the directors, but the person so chosen shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last elected a director.

85. The directors shall have power at any time and from time to time to appoint a person as an additional director, who shall retire from office at the next following ordinary general meeting, but shall be eligible for election by the company at that meeting as an additional director.

86. The company may by extraordinary resolution remove any director before the expiration of his period of office, and may by an ordinary resolution appoint another person in his stead; the person so appointed shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last elected a director.

Proceedings of Directors

87. The directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes, the chairman shall have a second or casting vote. A director may, and the secretary on the requisition of a director shall, at any time summon a meeting of the directors.

88. The quorum necessary for the transaction of the business of the directors may be fixed by the directors, and unless so fixed shall (when the number of directors exceeds three) be three.

89. The continuing directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to the regulations of the company as the necessary quorum of directors, the continuing directors may act for the purpose of increasing the number of directors to that number or of summoning a general meeting of the company, but for no other purpose.

90. The directors may elect a chairman of their meetings, and determine the period for which he is to hold office; but if no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the directors present may choose one of their number to be chairman of the meeting.

91. The directors may delegate any of their powers to committees, consisting of such member or members of their body as they think fit. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on them by the directors.

92. A committee may elect a chairman of their meetings; if no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the members present may choose one of their number to be chairman of the meeting.

93. A committee may meet and adjourn as they think proper. Questions arising at any meeting shall be determined by a majority of votes of the members present, and in case of an equality of votes, the chairman shall have a second or casting vote.

94. All acts done by any meeting of the directors or of a committee of directors, or by any person acting as a director, shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such directors or persons acting as aforesaid, or that they, or any of them, were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a director.

Dividends and Reserve

95. The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors.

96. The directors may, from time to time, pay to the members such interim dividends as appear to the directors to be justified by the profits of the company.

97. No dividend shall be paid otherwise than out of profits.

98. Subject to the rights of persons (if any) entitled to shares with special rights as to dividend, all dividends shall be declared and paid according to the amounts paid on the shares; but if and so long as nothing is paid up on any of the shares in the company, dividends may be declared and paid according to the amounts of the shares. No amount paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this clause as paid on the share.

99. The directors may, before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or reserves, which shall, at the discretion of the directors, be applicable for meeting contingencies, or for equalizing dividends, or for any other purpose to which the profits of the company may be properly applied, and, pending such application, may, at the like discretion, either be employed in the business of the company, or be invested in such investments (other than shares of the company) as the directors may from time to time think fit.

100. If several persons are registered as joint holders of any share, any one of them may give effectual receipts for any dividend payable on the share.

101. Notice of any dividend that may have been declared shall be given, in manner hereinafter mentioned, to the persons entitled to share therein.

102. No dividend shall bear interest against the company.

Accounts

103. The directors shall cause true accounts to be kept—

Of the sums of money received and expended by the company, and the matter in respect of which such receipt and expenditure takes place; and

Of the assets and liabilities of the company.

104. The books of account shall be kept at the registered office of the company, or at such other place or places as the directors think fit, and shall always be open to the inspection of the directors.

105. The directors shall, from time to time, determine whether, and to what extent, and at what times and places, and under what conditions or regulations, the accounts and books of the company, or any of them, shall be open to the inspection of members not being directors, and no member (not being a director) shall have any right of inspecting any account, or book, or document of the company, except as conferred by statute, or authorized by the directors, or by the company in general meeting.

106. Once at least in every year the directors shall lay before the company in general meeting a profit and loss account for the period since the preceding account, or (in the case of the first account) since the incorporation of the company, made up to a date not more than six months before such meeting.

107. A balance sheet shall be made out in every year and laid before the company in general meeting, made up to a date not more than six months before such meeting. The balance sheet shall be accompanied by a report of the directors as to the state of the company's affairs, and the amount which they recommend to be paid by way of dividend, and the amount, if any, which they propose to carry to a reserve fund.

108. A copy of such balance sheet and report shall seven days previously to the meeting be sent to the persons entitled to receive notices of general meetings in the manner in which notices are to be given hereunder.

Audit

109. Auditors shall be appointed and their duties regulated in accordance with the Companies Act, 1900, sects. 21, 22, and 23, or any statutory modification thereof for the time being in force.

Notices

110. A notice may be given by the company to any member either personally or by sending it through the post in a prepaid letter addressed to such member at his registered address, or (if he has no registered address in the United Kingdom) at the address, if any, within the United Kingdom supplied by him to the company for the giving of notices to him.

111. If a member has no registered address in the United Kingdom, and has not supplied to the company an address within the United Kingdom for the giving of notices to him, a notice addressed to him, and advertised in a newspaper circulating in the neighbourhood of the registered office of the company, shall be deemed to be duly given to him on the day on which the advertisement appears.

112. A notice may be given by the company to the joint holders of a share by giving the notice to the joint holder named first in the register in respect of the share.

113. A notice may be given by the company to the persons entitled to a share in consequence of the death or bankruptcy of a member by sending it through the post in a prepaid letter addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description, at the address, if any, in the United Kingdom supplied for the purpose by the persons claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

114. Notice of every general meeting shall be given in some manner hereinbefore authorized to (*a*) every member of the company (including bearers of share warrants), except those members who (having no registered address within the United Kingdom) have not supplied to the company an address within the United Kingdom for the giving of notices to them; and also to (*b*) every person entitled to a share in consequence of the death or bankruptcy of a member, who, but for his death or bankruptcy, would be entitled to receive notice of the meeting. No other persons shall be entitled to receive notices of general meetings.

115. Any notice, if given by post, shall be deemed to have been served at the time when the letter containing the same is put into the post-office; and in proving the giving of the notice it shall be sufficient to prove that the letter containing the notice was properly addressed and put into the post-office.

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THE END

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